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economic Review

The European Union and Reforms in Serbia

In this article I will try to explain my view on the current prospects of Serbia and Yugoslavia (i.e. the union of Serbia and Montenegro) with respect to membership in the European Union. Before making a decisive step towards the process of European integration, it is necessary to understand the key constraints and challenges which lie ahead on that path. At the same time, I will point out some public misconceptions with regard to the Belgrade Agreement.

With regard to progress of economic reforms, Serbia has definitely qualified for initiating the process of stabilization and association with the European Union. I will list only some data as a part of a broader positive dynamic. Firstly, inflation has been dampened even faster than originally projected. Monthly inflation in May 2002 was recorded at 0.5%, which is the lowest growth in prices in the last five years, while the cumulative inflation for the first five months of this year was 3.8% or about 9.5% at an annual level. Even this rate is still too high, but compared to the figures we have experienced previously, it stands as a significant deceleration. It took only a year and a half of reforms for the dinar to restore convertibility in all current transactions with foreign countries. Another important trend refers to the apparent recovery in exports in the first four months of this year, especially in April when exports in Serbia were up by 27% (17% in Central Serbia and as much as 53% in Vojvodina).

On the other hand, Montenegro faces serious economic difficulties. Thus, for example, exports registered a sharp drop by over 80% in April year-on-year. In terms of cumulative figures, Montenegrin exports dropped by about 30% in the first four months of this year, while exports in Serbia increased by 7% (in Vojvodina, as much as 30%) over the same period. It clearly follows that, compared with Montenegro, Serbia, in every respect, has pursued development much faster in the last year, which is testified to by almost all economic indicators. Even inflation in Montenegro has been higher than in Serbia this year,

FRY Basic Economic Indicators	2001	2001 / 2000	IV 2002	IV 2002 / III 2002	IV 2002 / IV 2001	I-IV 2002 / I-IV 2001
GDP growth*	...	5.5%	...	...	...	...
Industrial Production	...	0.0%	...	-2.7%	4.5%	-2.0%
Montenegro	...	-0.7%	...	-5.6%	3.2%	-11.1%
Serbia	...	0.1%	...	-2.6%	4.6%	-1.4%
Central Serbia	...	-4.0%	...	-1.8%	3.3%	-2.4%
Vojvodina	...	9.2%	...	-4.2%	7.3%	0.8%
Average nominal net wage - Serbia, in YuD.	5,381**	125%**	8,739	6.5%	...	...
Nominal gross wage - Serbia, in YuD. [1]	...	...	12,590	6.3%	...	...
Real net wage - Serbia, in YuD. [2]	5,248**	135%**	8,687	5.9%	...	...
Ratio of consumer basket to average net wage	...	...	1.3	...	...	...
Unemployment Rate - registered [3]	27.7%	4.4%	...	...	...	...
Montenegro	...	...	...	...	...	...
Serbia	26.9%	5.0%	28.3%	0.7%	5.8%	5.5%
Current account, in USD millions	-624	-87.1%	...	...	...	...
Total balance, in USD millions	-2,834	-58.5%	-240	-3.4%	3.6%	10.4%
Export - USD millions	1,903	10.5%	178	9.2%	17.0%	3.3%
Montenegro	178	10.3%	3	-80.5%	-83.5%	-28.6%
Serbia	1,721	10.4%	173	16.3%	27.2%	7.3%
Import - USD millions	4,837	30.3%	417	-5.4%	4.2%	0.6%
Montenegro	529	49.3%	28	-8.7%	-46.8%	-43.8%
Serbia	4,261	27.9%	389	-4.8%	13.5%	8.1%
Money supply (M1), end of period, in YuD bn.	45.16	109.8%	79.26	5.4%	91.8%	119.6%
Cash	15.4	103.4%	31.94	6.1%	158.6%	174.3%
Deposit	29.82	113.7%	47.32	4.9%	91.8%	93.0%
Real money supply, end of period, in DEM mil.	1,483	94.1%	2,565.92	5.0%	110.3%	115.5%
NBY hard curr. reserves, mil. USD (end of per.)	1,169	123.0%	1,568	6.2%	158.4%	152.0%
Discount rate - monthly level	1.47%	-26.65%	1.00%	0.0%	-50.0%	-28.3%
Market interest rate, monthly level	4.78%	-18.40%	3.18%	-6.2%	-37.4%	-33.9%
Retail prices - Serbia	...	91.8%	...	0.9%	21.5%	27.4%
Consumer prices - Serbia	...	93.3%	...	0.6%	20.3%	27.6%
Producer prices - Serbia	...	87.8%	...	0.2%	8.7%	13.2%
Average exchange rate - Din/EUR - average	59.45	16.5%	60.42	0.4%	1.9%	2.0%

[1] By the gross wage calculation methodology applied as of June 1, 2001
[2] Deflator is cost-of-living index
[3] The figures includes the employed in socially-owned sector, private sector and SMEs

* Preliminary figures
** According to the previous methodology

In this issue:

Mladjan Dinkic

Misconceptions and paradoxes

Fictitious joint state as a source of problems

although Montenegro accepted the euro for its currency, while Serbia still retains the dinar! Wages in Serbia also grew significantly; the net wages in April reached a level of about DM 280, compared to the DM 80 wages a year and a half ago. The wage growth in Serbia is considerable in real, as well relative terms, compared to the increase in the costs of living - about 50% compared with October 2000. On the other hand, real wages in Montenegro, at best, have stagnated for a year and a half.

In my opinion, with regard to other areas significant for accession to the European Union - for example, abolishment of the death penalty, respect for human rights and other important aspect of social reforms - Serbia has instituted appropriate legislation and effectively fulfilled all necessary requirements for initiating negotiations. I suppose that Montenegro has met the preconditions in this area, as well.

But the main question is still open. The question of frontiers and the undefined status of the state is an obstacle for further progress of negotiations on stabilization and association with the European Union. Paradoxically, everything that usually stands as the obstacle for a "normal" country to speed up negotiations has been fulfilled already and set in Serbia. But Serbia faces obstacles unfamiliar to other countries, that is, it is still not certain within which frontiers and in whose company Serbia is to access the European Union. This problem, rather irrational than rational, is outside the domain of domestic economic policy makers.

To put it simply, from the point of view of all features of a normal state, Montenegro is not an actual member of the Yugoslav federation since it has separate legislation (not observing federal legislation), a separate market, customs and currency. The only area in which independence is not that visible is official political representation of Montenegro in the international community, i.e. international financial organizations and United Nations, although Montenegro has its representatives and informal missions even there. At the same time, we have a federal government which only pursues its policy on the territory of Serbia, but half of the ministers in that government are from Montenegro; furthermore, these ministers are members of the opposition in their own republic. All of these elements make the situation unique in history and in social practice.

The Belgrade Agreement aims at sorting out these paradoxes. It seems, however, that the Agreement, in the way it has been interpreted by the majority of its authors has generated one great misconception from the very beginning, in that it is possible to erect a state with two separate economic systems. Such a state could certainly be created, for the simple reason that it is possible to create anything, but it will hardly be functional in practice without damage to those who live in it. This is the major problem of this idea which is dubious even from a theoretical perspective. I am certain that any serious progress in our country's attempts to join the European Union would not be possible as long as this issue is not resolved in a rational manner.

The issue of a single market of the future union is of crucial importance, although it might not have appeared so on the short-term political horizon in which Mr. Solana had operated through to March 14, when the Belgrade Agreement was concluded. But this issue is very significant to the European Commission, since it actually sets the pace, dynamics and directions of the association of any country with the European Union. With respect to the former requirements of the European Commission, it is clear that if Serbia and Montenegro opt for a union, however loose it might be, the new constitutional charter will have to provide for a strong federal administration in terms of full competence, both political and economic, for negotiations with the international community. Expedient negotiations with the European Union are not possible with the joint coordinative bodies in which the negotiators every now and then have to call Podgorica and Belgrade respectively for the opinion of their "base". Not only would such a position slow down the process, but would also permanently weaken our negotiating position. Hence, there cannot be a fictitious federal government or fictitious federal state. If a joint state were nevertheless established, the federal government would have to dispose of a few very operational ministries and, more significantly, those ministries would have to have full competence for negotiations and meritory decision-making. Of course, previous internal consultations between the federal government and the two republics are necessary, but the European Union is only interested in qualified negotiators at the federal level.

In my opinion, the idea that it is possible to make the union looser than the existing one, which would formally appear as one entity with two separate markets in practice, is the greatest misconception existing on both sides. Another misconception refers to the one relatively widespread idea extensively advocated in Montenegro in particular, but that does not lack its advocates in Serbia as well - namely that two economic systems can be slowly and gradually harmonized within the process of stabilization and association with the European Union. This is at the very least a problematic notion. Namely, the current position of the European Commission's representatives is that they simply do not want any serious talks on concrete issues without a single market, joint customs and a foreign trade regimen, together with a single currency as the main symbol of a uniform state.

Hence, it is more likely that a real process of association and negotiation on accession to the EU will start only after a single market is established, either at the level of a union or within the newly established separate states. In other words, although there is still much to be done in the area of legislation in both republics, the key obstacle for a faster process of association will be the lack of a single market. With regard to resolving of this problem, however, the position of Serbia completely differs from the position of Montenegro. Unlike Serbia, Montenegro is obviously not very interested in speeding up this process. Why can Montenegro afford to wait? Because Montenegro has a completely different economic structure than Serbia and does not base its development on exports of goods (except for aluminum, a stock product), but on the export of services and therefore does not have much benefit of preferential treatment for commodity exports to the EU market.

On the other side, Serbian exporters need normal and easy access to the European Union market. The example of the European Commission's refusal to conclude the Agreement on Textiles with our country is the most drastic case in point, and is unfortunately only the first in a row. Until this Agreement is concluded, the Serbian textile industry will not be able to export its products to the EU market under favorable conditions and hence will appear as uncompetitive in comparison to many other countries which have already concluded such agreements. Serbia is interested in a speedy conclusion to this Agreement, while Montenegro is hardly concerned at all. The lack of a single market was mentioned as a reason for not concluding the Agreement. This is only one example which shows that unresolved economic relations in the union could become an increasing source of tension or even serious political conflict in the future.

Other reasons which permit Montenegro to prolong talks both on the joint state and on association with the EU come from its position which is much more comfortable then that of Serbia, since Montenegro is a small republic with a small population and a relatively insignificant market, which is the reason why the integration into the EU would not bring any spectacular benefits. As a smaller and weaker partner

in the joint state, Montenegro justly expects to be treated with permanent international sympathy, which should keep this Republic away from any political pressure and, following the pattern of "the innocent child", allow it to redirect attention of the international community towards "the elder brother". Generally, when two completely unequal units are to form a joint state - and in case of Serbia and Montenegro this inequality is huge (5:95) - this is attended by plenty of problems even if unification is performed in an atmosphere of love and understanding, not to mention an environment dominated by traditional motives of political elites, in lieu of rational ones.

I would like to mention some other practical problems which we face today in a fictitious joint state, the most important one being the system of payment between the two republics. Namely, although required by the businessmen/women from both republics, it is not possible to ease the system of payment between Serbia and Montenegro at the moment because we have two currencies in one state. This cannot be achieved for technical reasons, despite the considerable knowledge and goodwill present in the NBY. Namely, under the present circumstances the NBY made a maximal concession, allowing payment operations between the two republics to be carried out in foreign currency. There is no essential difference at present between the system of payment between Serbia and Montenegro and Serbia and New Zealand. In a technical sense it is carried out in the same way. Any different solution is not possible with the euro in Montenegro and the dinar in Serbia - two republics which formally constitute a single state. It is only further proof of the nonexistence of a joint state. Life goes on, however, and the volume of payment operations between Serbia, Montenegro and Kosovo totaled US$ 350 million in the last year, with Serbia having achieved a surplus of US$ 250 million. In general, the NBY is not against such payment operations since for the NBY this was a way to fill its foreign exchange reserves with the amount which exceeded the IMF loans in the same period. But, from a global perspective, it is bad for business since such payment operations, carried out indirectly through intermediary banks abroad, are not that fast, easy, nor cheap. If we want a normal state, however, this will have to include a single national currency and consequently, an easier system of payment.

Possible ways of resolving problems

An additional problem concerns the different treatment of banks in Serbia and Montenegro due to completely different Bank Laws in effect in the two republics. For example, Montenegro will increase the census to US$ 5 million as of next year, a census level that has been in effect already in Serbia for some time and that will be increased to EUR 10 million by the end of 2003. Many bankers from Serbia are approaching the NBY with requests for finding a way and getting assistance in continuing business activities in Montenegro after May 31, since the Montenegrin Central Bank requires them to register as new banks, as affiliates or as branch offices, on the basis of new regulations starting as of that date. This implies that Serbian banks will have to pay the census for a second time, although they have already paid it once at the NBY. Hence, the lack of a single market causes many obstacles and misunderstandings in banking.

Those who support the idea of gradual harmonization between two republics raise the question whether it is possible to make an agreement between the NBY and the Montenegrin Central Bank on mutual recognition of banking licenses. It would certainly be possible theoretically if two the republics had identical legislation on banks and the same quality of supervision over their operations. However, with a single bank law in force in both republics, the question begs itself - what is the purpose of having two central banks? Hence, my response to the aforementioned question is negative in spite of all existing good will. In my opinion, an abnormal situation cannot be resolved with abnormal measures because it would only increase the absurdity of the current situation. The solution should be sought in the opposite direction - in creating and establishing logical rules that become all normal countries.

Finally, what are the solutions for the future of Serbia and Montenegro? It seems to me that there are two possible directions in which this pressing issue could be resolved. The first, as a dominant political option today, is to follow the current short-term interests of political elites and to establish a non-functional joint state which is to be harmonized within an indefinite time frame. Its beginnings are a non-functional joint state with two markets that are to be slowly and gradually harmonized, with no strict mechanisms to guarantee the pace and content of such harmonization. This brings us back to the problem already mentioned, namely that Serbia is in a hurry, while Montenegro appears practically indifferent. This problem could be overcome if EU institutions, the European Commission in particular were to agree to support such a state and to create special negotiating methods for the process of association and stabilization. This is not very likely, since the European Union will hardly make a precedent and change all the procedures which have been applied for years in the process of integration of other countries into the European Union just in order to appease the irrational requests of two small republics in the Balkans.

Considering the very slight chances for such a non-functional union to exist efficiently in practice, animosity between the two republics stands to deepen and the pro-independence trend threatens to grow not only in Montenegro, but also in Serbia. Both republics will likely press harder for independence if citizens and businessmen are provided with added motives for discontent due to the losses they incur because of the unresolved status of the state. In the end, Serbia and Montenegro, as separate states, would independently start to integrate into the European Union.

Another solution, the only possible one in my opinion, is if genuine desire for a joint state exists, a desire that admittedly has not been expressed thus far by the Montenegrin side, would require both the Serbian and Montenegrin political leaderships, together with representatives of international community, to immediately start establishing a functional state. All characteristics of such a state in that case would have to be included in the Constitutional Charter which is soon due for consideration. This practically means that full harmonization of the Serbian and Montenegrin economic systems would have to be finished by the year's end. At the same time, a government which would be formed at the federal level after the election must have full competence and legitimacy for meritory negotiating with the European Commission. If this scenario were realized, we would have "only" a six-month delay in serious talks with Europe, continuing from the previous Serbian-Montenegrin debates. In the case of the first case scenario, loss of pace in Serbia would be equal to the time necessary for the Serbian political elite to realize that a non-functional state can only bring damages. Unfortunately, such distraction with irrational options could take years; a third scenario practically does not exist today.

The third scenario - the most legitimate, but practically unfeasible

As a matter of fact, the third scenario does exist, except in theory, but owing to the present will of the political elites in both republics and in the EU, it is not presently feasible, in spite of its ultimate legitimacy. This is a free referendum in both republics and a broad expression of the citizens' will on whether to start the integration process with the EU as one functional union, or as two separate independent states. Unlike technocrats, politicians are often prone to more complicated solutions, which will probably happen in this case also.

Robert Sepi

Institutional Review

The Law on Ministries

Intense legislative activity marked the previous month in Serbia. Among other things, the Parliament adopted the Law on Ministries; adoption of this law was presented as a necessary prerequisite for prompt and successful implementation of reforms. This Law was adopted under very interesting circumstances in many senses. Firstly, at that time a new crisis with an uncertain outcome in the governing coalition was under way. This time the crisis resulted in a lack of quorum for decision-making at a session of the Serbian Parliament, which is not in itself unusual in the parliamentary life of one state. But in this particular case, the curiosity resulted from the fact that in the building of Parliament itself there were enough deputies present to provide a quorum, but not all of them attended the session for different reasons. The adoption of this Law was followed by two unusual exceptions. Firstly, no debate in principle was held on the proposal of the law. Secondly, the Government amended its own proposal of the law and, in other words, simultaneously played the role of a law proposer and amender to the proposed law.

Intensive legislative activity

This law was adopted prior to any clear and certain knowledge of the content of the future Constitutional Charter; and it is still uncertain what prerogatives of the federal state will be transferred to the institutions at the level of the republic, while and eventual need for new ministries at the level of the republics depends on how this issue will be resolved, as well as on how the form of the future reduction of the federal administration will unfold. Although an increase in the number of ministries will not necessarily cause an increase in the number of employees, all this is happening at a time of widespread reduction of employment in the economy.

The structure and number of ministries stipulated by the new Law on Ministries stands as a strategic solution that is in direct opposition to the one advocated by the same Government at the beginning of its mandate. The Ministry of Local Governance was established in the first half of 1997 and assumed a portion of the prerogatives previously assigned to the Ministry of Justice. At the beginning of last year, in January 2001, after the Law on Supplements and Modifications to the Law on Ministries had been adopted, the existing Ministry of Local Governance was liquidated, while its employees and the officials assigned to positions in that Ministry, files, archives and the corresponding equipment were taken over by the newly-founded Ministry of Justice and Local Governance. Only fifteen months later, the process was reversed; the Government of Serbia, as part of its reformist strategy, is advocating different solutions.

A new ministry does not necessarily mean increase in the number of employees

With regard to the previous reorganization of the ministries, their administrative offices and special organizational units, the Government observed a need to improve existing organization and division of competences within the purview of one ministry in such a way as to transfer particular state administration policies from related areas to the competence of one state office. Furthermore, it is believed that, due to the significance of the right of local self-governance and the volume of work required, a division of the Ministry of Justice and Local Governance into the Ministry of Justice and the Ministry of State Administration and Local Governance. Since the former Law on Ministries had been modified and amended eleven times, on this occasion a decision was made to adopt a completely new law.

The overall number of ministries has increased by comparison with newly established ones, but this number nevertheless remains under the limit accepted by the majority of former SFRY republics. This number is greater than in Bosnia and Herzegovina (13) and Slovenia (14), states with no special ministries in charge of local governance or public administration. Serbia and Croatia have an equal number of ministries, but the situation in Croatia is similar to the one in Serbia prior to the passage of the Law on Ministries. Namely, the tasks linked to local governance and public administration are under the competence of the ministry that is officially called the Ministry of the Judiciary, Administration and Local Self-Governance.

Establishment of new ministries inevitably raises the question of expenses. New ministries do not necessarily mean a staff increase, and in this particular case the new Ministry of Public Administration and Local Governance will take over officials already engaged in this area. There is a question of premises for the new Ministry, followed by the expense of the technical equipment necessary for its efficient work. Finally, there are costs of the new seal and other symbols of the new Ministry.

The new ministry has been established and is to start working in the middle of the fiscal year. Consequently, the resources for the new ministries must be provided from the current budget, which might prevent it from beginning operations at full capacity at the beginning.

The prerogatives of the new ministries are not simply a transferred part of prerogatives of the former Ministry of Justice and Local Governance, for some fundamental changes have been made as well. Firstly, this refers to changes in competence in the area of citizens' associations. Unlike the prerogatives of the former Ministry of Justice and Local Governance which were described as carrying out the duties related to political, trade union and other forms of organizing, the new Ministry has a broader competence. In particular, the new Ministry is in charge only of the activities related to political and other forms of organizations, while the Law itself contains a negative enumeration in that it prescribes that the mentioned prerogative does not refer to trade unions. Furthermore, competence in the area of direct expression of citizens' opinion is set on broader grounds relative to the former provision, which limited the competence only to the enforcement of regulations in this area. Under the new Law, the prerogative is set as carrying out the duties associated with direct expression of citizens' opinions.

The new Ministry reflects modern trends

Similar changes have been made in two other areas: the system of local self-governance and territorial autonomy (instead of establishing this system, competence is now defined as carrying out duties, which is much wider) and in the area of public utilities (instead of the previous carrying out of duties related to the position and role of the utility organizations, the competence is extended to all public utilities). Finally, as a completely new prerogative, the Ministry is assigned to pursue the activities related to territorial organization of the Republic.

On the other hand, it is certain that establishment of the separate Ministry of Public Administration and Local Governance is beneficial in many ways. It fully corresponds to the modern tendencies of stressing the significance of local self-governance and the process of decentralization. Furthermore, successful functioning of the state requires a ministry which would deal with public administration in its totality. This would result in a well-organized state apparatus in compliance with European standards, with professional (state) officials as guarantors of expertise and impartiality in the work of the state administration.

Institutional Topic

Dr Miodrag Orlic,
Professor at the Faculty of Law,
University of Belgrade

Establishment and Revision of Land Registers[1]

(A proposal for the most appropriate kind of real estate registers in Serbia for the XXI century)

A prediction made by professor Djordje Pavlovic in 1867 for future generations will come true in the establishment of land registers: "If we want to attract foreign capital to the country and allow foreigners to own real estate in Serbia (which is not too far away on our opinion), then we will first have to establish land registers. This will be the most serious guarantee for their capital in Serbia"[2]

I. About the need for public land registers

1. A need for establishing public registers of real estate arises out of the very nature of real estate, its economic significance and the characteristics of legal relations that accompany it. Where movable property is concerned, actual possession as an external sign of ownership is enough in principle. It is not only protected as factual ownership in legal terms, but also, providing that it has particular characteristics and with passage of time prescribed by the law, the title to property could be acquired by adverse possession. All these characteristics are clear with movable property. Furthermore, in some legal systems such as the French (and legislations modeled after it), actual possession of movable property is sufficient basis for acquiring and having the title of ownership ("With regard to movable property, possession constitutes a legal title").

Real estate should be recorded in a real estate registers

2. Although suitable as a sign of ownership for movable property, actual possession cannot serve, even remotely, as basis for publication of ownership titles over real estate. This is primarily due to the difference between these two kinds of properties. Land, which serves as a model for defining legal regimens for real estate (which is different with flats, business premises and buildings in general which have actual borders, similar to movable property), does not have natural borders. Therefore, it is necessary to mark the borders of land areas that are subject to particular land titles. It is necessary to measure the land areas, mark borders and note particulars in registers so that the public can be informed about the size of a particular lot and the titles related to it. Instead of actual possession as a natural way of publication of the title to property, real estate requires artificial means of publication, which is achieved through record keeping in real estate registers.

II The History Of Land Registers

3. Modern land registers emerged almost simultaneously in Austria and Germany. The 1811 German Civil Code already prescribed that property rights are acquired, transferred and canceled through recording in land registers. But land registers were not established at once. After a range of legal regulations that had established the system of land registers in particular provinces (among others, in Vojvodina and Croatia in 1855), in 1871 a general Land Registers Law was adopted; this law was in force over the entire territory of Austria. The Austrian legislation today is based on the 1955 General Land Registers Law, on the 1980 Law on Reorganization of Land Registers, which, among other things, has introduced electronic keeping of land registers, and on some other laws.

The 1811 Austrian Civil Code prescribed land registers

4. Like Austria, Germany also experienced gradual development of real estate registers. Furthermore, unlike Austria which had a strong central power, Germany was politically divided. Besides several larger units, it consisted of numerous smaller states and free trade cities, each one enforcing different legal systems. In spite of the unfavorable impact that this diversity, both in legal systems in general and in the organization of land registers, had on legal transactions between particular provinces over the lengthy period between the Middle Ages and Unification, the final outcome was positive. Different systems of public registers (which recorded only mortgages at first, but later included other property rights) served as a basis for gradual distinction of elements which could be justly assessed as the best solutions. Thus, through slow evolution and gradual improvement of particular elements, a new modern system of land registers was established. This system should have served as a model of well-organized and reliable public registers. Land registers were legally regulated in Prussia in 1872 first, one year after Austria, and then the system adopted through this law was spread to the whole territory of Germany through the Land Registers Law (Grundbuchordnung) passed in March 1897, adopted after the 1896 German Civil Code. Today land registers legislation in Germany is based on the rules set by the German Civil Code and the aforementioned 1897 Land Registers Law, whose provisions have been modified and improved several times.

5. Established in a modern way and accurately kept, these land registers (Grundbuchordnung) stand as one of the best systems of public registers of real estate and related rights. It has been praised not only by experts from countries that are part of this

[1] This article was published as part of the project "Registers in the FRY and Republic of Serbia" carried out by the G17 Institute in cooperation with the USAID Project for commercial legislation reform. Owing to the kindness of the author, the article is published without scientific tools. All readers interested in the whole text with footnotes are referred to the magazine "Anali" 1-5 2000, Faculty of Law, Belgrade.

[2] Djordje Pavlovic, *Land registers*, article published in the volume "*Mortgage Law in the Principality of Serbia*", Belgrade, 1868, p. 262.

system, but also by numerous legal practitioners outside of Austria and Germany who have advocated the establishment of land registers in the legal systems of their countries. It is worth mentioning that some countries that annexed territories in which the land register system was in use (France, Italy, Romania) after the war retained it despite the fact that on the whole territory of that state (or major part of it) a different system of public registers was in force. Finally, after the disintegration of SFR Yugoslavia, in 1995 the Republic of Slovenia adopted the Land Registers Law, followed by Croatia which, after a period of experimenting with new forms of evidence, adopted the Land Registers Law in 1996, based on modern regulations of German and Austrian law.

III Main differences between land registers and so-called unique evidence

6. The Austrian-German system sets up numerous principles which provide security of legal transactions and offer reliable data to all interested parties about the state of property rights recorded in land registers. Without taking into account all principles of land registers keeping and maintenance, we will discuss only those characteristics that mark the main difference between land registers and the system of so-called unique evidence. These are: **A.)** the division of real estate records into cadastres and land registers; **B.)** the rule of functional judicial competence and **C.)** the recording of titles in land registers upon request by interested parties.

A.) Division of public real estate registers into cadastres and land registers

Basic principles: division of public registers into cadastres and land registers

7. One of the most important principles of the Austrian - German system is division of public real estate registers into cadastres and land registers. These two different records, the first one which records factual data and the second one which records titles are a touchstone of the whole system, and are essential to understanding how it functions. Without this understanding the advantages of the Austrian - German system cannot be comprehended. The existence of registers for factual and legal evidence and their different purpose demand different state organs to be in charge of their keeping and maintenance. Record keeping is assigned to administrative officials trained for this purpose. By contrast, evidence of titles in land registers is under the jurisdiction of court officials who, by the nature of their profession, are qualified to make decisions on issues of great importance to individuals, such as the acquisition, transfer and termination of real estate titles. This distinction, both functional and jurisdictional, is considered normal and understandable in and of itself, and is not subject to questioning within this system. Since the principles on which this system is based have been challenged, it is necessary to examine how they function in the countries of origin of the land-register system.

8. In Germany, Austria and Switzerland, a cadastre is a public register of real estate. It is the basis for keeping land registers, which means that a cadastre does not exclude, but quite the contrary, presumes the existence of land registers. A cadastre is a record of land and buildings which includes information on the shape and area of an arable lot of land, its agricultural suitability (culture that grow on it) and fertility, as well as information on buildings, cadastre income from land (and buildings), information about its users, etc. The purpose of a cadastre as a public register was to establish the factual data on land and buildings in a reliable way and to publicize it. At first, a cadastre served for taxation, offering data on cadastre income from land (as a basis for land tax). Today its purpose is wider; apart from taxation basis, it serves for economic, administrative, statistical and other purposes, as well as a basis for land registers. The cadastre information allows determination of the position and area of particular land lots necessary for identifying it and demarcating it from neighboring lots.

9. Cadastre information is the basis for creating land registers and for their accurate keeping. But real estate rights are acquired, transferred and terminated through recording in land registers, not in cadastres. Therefore, for information on real estate rights, a state recorded in land registers, and not in cadastre, is valid. This is understandable because at issue are different functions of these records. They are established with a different purpose and, therefore, their keeping and maintenance is assigned to different offices. This results in their correlation, as well as mutual exclusiveness. "Cadastre and land register", as one leading German textbook says, "supplement each other in the way that the former records the factual data, while the latter records legal relations. Together they provide complete information about real estate". Consequently, close connection between cadastres and land registers is reflected in the fact that a land register uses data from a cadastre, while a cadastre borrows information on ownership and other property rights from land registers. Cooperation between land registry courts and cadastre officials is traditionally close; on the basis of this cooperation, cadastre officials advise land registry courts on new information (on the size and area of particular land lots) acquired through modern and more precise measuring methods, as well as on new buildings erected on the land, etc, while courts inform cadastres on changes in ownership titles and other related rights. This cooperation insures accurate keeping of both public registers and their mutual compliance.

Keeping and maintenance of land registers is assigned to different officials

10. In our legal system, cadastres also used to serve as a basis for land registers, but had no relevance for the existence and acquisition of property related rights; this was under the competence of land registers only.

11. By contrast, the system of so-called uniform records stands as an attempt to unify these diverse elements, i.e. information and property rights into a unique entity. Unification was carried out in such a way that issues regulated by legal regulations in land registers were added to the cadastre. The cadastre was projected to take over the role of land registers, to make them superfluous and finally to annul them.

B.) Rules on judicial competence

12. The competence of different state offices in charge of real estate records (administrative officials for cadastres and court officials for land registers) flows out of the functional division between these two types of records, according to which cadastres keep records of factual information, while land registers record property rights.

This division seems so natural and logical in countries where it originates (it should be mentioned that our legislation in this field also belongs to this system) that it fails to offer

any strong arguments in favor of such division of competence in real estate record keeping, but is simply taken for granted.

a. Reasons in favor of judicial competence

13. If, nevertheless, the question arises as to who should be in charge of decision-making on property rights and real estate evidence, as was the case in our country, the following reasons should be considered in favor of the opinion that this task should be assigned to judicial, rather than administrative officials: **a.)** The independence of courts gives them a decisive advantage over administrative officials who are subject to hierarchical subordination. **b.)** The nature of legal relations which are focused with regard to property rights is closer to judicial, than to administrative competence. **c.)** The possibility that recording of a real estate title implies legal assumption (or even fiction) in favor of the registered person is much more acceptable when public registers are kept by a court, than by administrative officials (especially when a dispute between an individual and the state is at issue). **d.)** Out-of-court settlement is more suitable than an administrative procedure for handling this kind of legal relation. **e.)** Traditionally, private ownership is better protected by a court, than by an administrative office. **f.)** Citizens are more trusting of courts, than of administrative organs. **g.)** For historical reasons, people in our country have already become used to acquiring titles in court. **h.)** A consideration from comparative jurisprudence refers to the fact that countries in which this system originates assign this competence to courts. This article will consider in detail only the first two considerations.

Functional division: administrative officials are in charge of cadastres, while court officials are in charge of land registers

b. Independence of courts

14. The main reason for assigning the task of settling real estate-related rights to court officials refers to the independence of courts. The principle of independence of courts derives from the principle of division of power and the principle of legality. The courts rule in accordance with the Constitution and laws and in this sense, legislative authorities have a natural precedence in a state. But courts are distinguished from both legislative and administrative authorities and act independently. Neither legislative nor administrative authorities are allowed to interfere into the work of courts which have general competence in disputes from family and personal relations, working relations, to ownership and civil law issues. Therefore this competence is always presumed, except is cases concerning the competence of other state institutions, which is strictly prescribed by separate laws. When considering whether some of the mentioned ownership or civil issues should be assigned to administrative officials, the advantages offered through settlement before the court compared with a procedure before administrative officials should be looked at. Unlike the courts as autonomous and independent institutions, ministries, as the most important administrative organs are autonomous in their work, but are not independent. The difference is even more visible with regard to the position of courts and other administrative organs which are formed within particular ministries and which are subject to the principle of hierarchical subordination.

Advantages of judicial over administrative competence

15. Independence of courts means that they are limited only by the obligation to observe laws (and other general legal regulations) in their work, without any possible outside influence. The principle of legality, as well, which implies that courts are only bound by general legal norms contained in the law, has been understood recently in a more flexible way than previously, with courts getting an increasingly wider measure of reasonable freedom. In many court cases it was left up to the courts to define the contents of particular terms stipulated by laws or to pass decisions that take into consideration all circumstances of a case. But if the court is still bound to the principle of legality, in spite of reduced rigidity and increased flexibility with regard to general legal norms, it is still free and independent from all other influences. Neither legislative nor administrative authority can interfere in judicial rulings or exercise any influence over courts. "The independence of courts not only opposes any open request for a particular ruling, but also all other forms of possible demands for settlement of particular disputes". Courts should also be protected from the influence of the media and public opinions in passing sentence in particular cases. Also, it should be remembered that courts are much more resistant to political influence than administrative officials.

16. The independence of courts understood in this way is fundamental to impartial judging and decision-making based exclusively on the law. Impartiality in decision-making is particularly important in disputes in which one party is an individual citizen and the other party is the state. Namely, in disputes between individuals there is a smaller risk of institutional interference with courts (but it should not be ruled out as possibility in such cases, either). In such disputes, no state official is interested in the outcome of a dispute (although some individuals close to state officials could ask for, and sometimes get, support for interfering in the outcome of a dispute) because they are generally indifferent whether Peter or Paul are to get a ruling in their favor in court. But it is completely different in disputes, for example, whether a certain piece of real estate is in private or state hands. In such court cases it is necessary that decision-making be in the hands of an impartial official, and not an administrative official who, due to its dependent nature, will be more prone to submit to influences (in the form of orders or directions). Whenever the state attempted to evict citizens from their property without legal grounds or reasonable cause, judicial competence was avoided under the law. Thus, in the case of nationalization of buildings for lease and of construction land, administrative proceedings for the settlement of such disputes were always ruled out as possibility.

The independence of courts guarantees impartial decision-making

17. An important difference between administrative and judicial officials today is that the former are dependent, while the latter are independent. Of course, it does not apply to the highest administrative officials, simply because there are no officials above them on whom they could depend. Although ministries as the highest administrative institutions are autonomous in pursuing the prerogatives prescribed by the law, ministers do not enjoy judicial independence, but are subject to parliamentary control. On each level of the hierarchy, the lower the office, the more subordinated it is. Namely, unlike courts, administration is organized on the principle of subordination; hence, administrative offices are obliged to observe directives and orders placed by senior offices. Therefore, compared to courts, administration offers less guarantees that the disputes in the field of property relations will be resolved impartially

18. Administrative organs are always concerned with state interests. Consequently, there is a risk that eventual disputes in the area of property rights will be resolved in favor of those interests. Such a position of administrative officials is particularly expected in disputes over property between the state and individual citizens. It should be borne in mind that one party in such dispute is the state, which is at the same time superior to the administrative office; an administrative office is not always able (or willing) to resist that influence. Therefore, in the case of division of prerogatives, advantages of courts over administration should be taken into account the in that "the judiciary, as a rule, guarantees a thorough court proceeding in a case and legal safety (due to judicial independence, more detailed legal regulations, more subtle proceedings). Judicial competence hence extends primarily to matters of particular importance to the citizens' interests"[3]

c. Reasons deriving from the legal nature of relations

19. Apart from the principal reasons related primarily to judicial independence, there are also reasons stemming from the legal nature of real estate property rights which imply that this issue should be under the competence of courts. Namely, the nature of legal relations regarding real estate property rights results in the distinction between judicial and administrative competence. Courts arbitrate in litigations in the field of property and civil rights, personal and family relations, labor relations and certain other issues. Administrative offices rule in administrative proceedings on the subjective rights or liabilities when an administrative issue is in question. A borderline is drawn with regard to the nature of legal relations in question: decision-making on civil law relations is assigned to courts, while administrative matters are assigned to administrative officials. Legal science usually takes the following characteristics as criteria for determining civil law matters: **a.)** legal equality of parties and equality of their wills; **b.)** free initiative of the parties (autonomy of will, the principle of disposition); **c.)** rights are transferable; **d.)** property sanctions; **e.)** protection of the right to a private demand. The first two characteristics are of particular importance: equality of parties in relation and the free initiative of parties in establishing legal relation as the basis for distinguishing between civil and administrative issues. In civil law, both parties have equal (coordinated) positions, while in administrative law, their positions are subordinated. Thus, for example, in a contract of sale of real estate (civil law), the seller and buyer are equal and negotiate freely whether or not to close a contract, while in the case of expropriation, the real estate is taken away from the owner in the form of compulsory purchase.

Consequently, in matters where both parties are equal, they are resolved in litigation or out of court settlement under judicial competence, while relations of administrative character are under the competence of administrative officials.

Courts are fully qualified to make decisions on property rights

20. The question of what kind of state officials should be in charge of keeping registers of real estate property rights cannot be answered in an abstract way, but stems from the character of property rights registration in public registers in particular legal systems. If a property right is acquired at the moment of the closing of a contract on a real estate sale, with the only purpose of public registration being to inform third parties, public registers can be kept and maintained by competent administrative officials. By contrast, if in a particular legal system titles to property are recorded in public registers, not only as a mean of publication, but primarily to create that title, competence must be assigned to the courts since only the courts are fully qualified to make decisions on complicated, and sometimes very complex questions of acquiring and terminating ownership titles and other property rights. In this regard, there are differences between the Austrian - German and the French systems.

1 The French system

21. A significant characteristic of the French system is that property rights are transferred *solo consensu*, i.e. at the moment of the conclusion of a sales contract or any other contract with the same purpose. Consequently, registration in land registers does not transfer property rights, but only records that it passed from the seller to the buyer. Registration in public registers in this system does not create property rights, but only records the earlier acquired title for the sake of third parties.

22. Since ownership is acquired through the contract and is recorded only so that third parties are informed, it is not necessary that judicial organs keep these registers, as is the case in the Austrian - German system. As a matter of fact, registers in France are kept and maintained by a special administrative official within the Ministry of Finance called "guardian of mortgage" (conservateur des hypotheques). His role is confined to examination of the formal conditions for registration, not to challenging the verity of the seller's title or the validity of a contract which transferred that title. Given the role of property registers in French law, it is understandable why this has been assigned to an administrative official. The historical reasons also speak in favor of assigning this function to the conservateur des hypotheques since this institution was established 200 years ago and has been pursuing the same function ever since. Nevertheless, the system of publication of property titles in France, and consequently the institution of the conservateur des hypotheques as the official who keeps and maintains public registers is subject to unanimous criticism in legislative theory.

2 The Austrian system

23. The Austrian system (to which, in this sense, our law belongs) significantly differs from the French with regard to the transfer of property rights. In the French system, property rights are transferred at the moment of the signing of the contract, while in the Austrian and our laws, the transfer of a title is carried out in two steps: the first step refers to the contract of sale, while the second refers to registration (on the basis of the previously concluded contract of sale) which actually transfers the property title from the seller to the buyer. In the Austrian and our systems, the contract of sale produces only an obligation: the seller is obliged to transfer ownership to the buyer (but at that moment the title is not yet transferred), while the buyer is obliged to pay the contractual selling price. In order to understand correctly the sense of the legal effect of a contract in our law, it is necessary to emphasize that the contract of sale in and of itself does not change anything for the contracting parties in terms of property rights. The fact that the contract of sale has been concluded

[3] Ivo Krbek, "Odnos sudstva i uprave," Archive for Social and Legal Studies, no. 3/1952, p. 307

does not mean that the seller is no longer the owner. The closing of a contract in and of itself does not change the holder of a title. This only binds the seller to transfer the title later through registration. Until such time, the seller remains the owner, and, as such, he/she can conclude another sale contract (or several sales contracts) and on the basis of the second contract, transfer the property rights to the second, not to the first buyer. Therefore, by contrast with the French system, the transfer of property rights is associated with public registration.

Constitutive impact of land registration

24. Registration, based of a valid sales contract, both in the Austrian and our laws (and in some points in German law, as well), is a turning point in which the buyer acquires title to real estate, while the seller seizes to be the owner any more. Therefore, it is said that registration in land registers has a constitutive effect, since registration (in this case full land registration) creates (constitutes) the property right. All the actions taken previously - i.e. real estate contract of sale, court notarization of the written contract, issuance of the clause intebulandi, etc. - are necessary, but all the mentioned actions are only preparatory, with registration resulting in the property right.

25. With regard to the importance of registration for acquisition of ownership (and other property rights) over real estate, it is understandable why the keeping and maintaining of land registers in the German and Austrian laws is assigned to judicial, rather than administrative officials. Registration in land registers is not just mere recording of the fact that a property right has been acquired, as is the case with the French law. Registration in our and Austrian systems is an act which creates (constitutes) the property right. Therefore, in France, it is possible for administrative officials to keep land registers, while in the Austrian, German and our laws it is necessary that land registers exist and that they are kept by the courts.

C.) The principle of recording titles in land registers upon request by interested parties

Registration initiated by interested parties

26. Ownership and other property (and some contracting) rights are recorded, as a rule, in land registers upon request by interested parties, while the court initiates the procedure ex officio only in exceptional cases. The principle of the recording of titles upon request by interested parties (or the principle of consensus) means that full land registration, as well as other kinds of recording of titles, is initiated by the interested parties, not by the court ex officio. Furthermore, the land registry court is bound in its decision-making by the initiative of interested parties, as well, and cannot approve more than the proposer's request. For example, if the proposer explicitly requires preliminary registration of the title of ownership, while, according to the submitted documentation (original documents and sale contract, notarized signatures of the contracting parties, clausula intebulandi of the former registered owner, precisely defined real estate, etc.) all criteria are met for full land registration, the land registry court cannot make a decision on full registration, but will only record preliminary land registration of a title as the proposer explicitly requested. However, this principle of registration upon request by the interested parties is applied flexibly, and if the proposer has not explicitly defined the type of required registration, the land registry court will decide to carry out registration which is, according to the land register's information and submitted proposals, most favorable for the proposer. Hence, if there is no explicitly defined request in terms of the type of registration that is demanded, the court is allowed to decide on registering a title of full ownership, rather then a preliminary title, where all the prerequisites for full land registration are fulfilled.

27. Of course, a land registry court is allowed to approve less than what has been requested by the proposer (according to the principle of argumentum a maiori ad minus). Thus, if the proposer requires full registration of a property title, but has not fulfilled the prerequisites for it, on the basis of the land register's data and supplied documentation the court will refuse that request, but will allow preliminary registration of a title.

28. It is worth mentioning that a request for registration of titles in land registers could be submitted by both interested parties, i.e. either by the party acquiring the property right through land registration or by the party terminating his/her property rights (or registering a charge for the piece of real estate in question). Most often the request is submitted by the contracting side (buyer, gift recipient, exchanger, provider, lender, etc.) that acquires certain rights through registration.

This is understandable since registration is in the interest of that party, with the acquirer benefiting most from registration. But it is possible that in spite of all advantages provided by registration in land registers, a contractor who stands to acquire a certain title fails to pursue registration for various reasons, justified or unjustified. This may have negative consequences not only on that contractor, but on other persons as well. Also, this may result in inaccuracy of land registers and in loss of confidence in this institution by legal entities and natural persons.

29. It is not a frequent case in our legal theory and in our legal practice it is completely unknown that a party whose title terminates asks for registration of any kind. Among the reasons for this, there is the already mentioned fact that registration of a title is in the interest of the party who acquires that title; naturally, that party should submit the request. The second reason is closely related. Namely, termination of a title effects the former registered owner in that he/she is no longer interested in the future of the previously owned title. It is sensible that everyone should take care of one's own interests and propose the consequent registration of the acquired title in land registers: the buyer when acquiring ownership, the mortgagee when acquiring a mortgage, the mortgager when, as owner of the charged real estate, requiring discharge of a mortgage. Therefore, the second party should not be expected to take care of the interest of the one who acquires the title, although this is feasible in legal sense.

30. A former registered owner whose title has terminated (or whose property is being charged) has already made an explicit declaration of will earlier (clausula intebulandi). In this way the former registered owner agrees to the recording of the title in the name of the second contracting party. In the practice of legal practitioners clausula intebulandi has commonly been formulated to enable the buyer to record property rights in a land register without further consent required from the seller. This means that the onus is on the buyer to

submit the request for registration. But, in cases where the fact that the seller is still recorded as the owner in a land register brings about unfavorable consequences (e.g. tax assessment on the basis of land register data), the seller should remind the buyer to pursue registration, or request the court directly to record the buyer's newly-acquired title. This is an unusual procedure according to the former practice, but is explicitly prescribed as permissible in some legal systems; in our opinion, there is no obstacles for this to be applied in our practice, either. Moreover, an option where the former registered owner can request registration of a property right on behalf of the acquirer could be very beneficial as a practical measure for organizing and updating land registers, given that the acquirers are often negligent for various reasons (tax reasons, absence, etc.)

Exceptions

31. Laws pertaining to land registration include numerous exceptions to the rule with regard to registration of property rights as pursued upon request by interested parties (or competent officials), which allows courts to act ex officio. The most important exceptions are the following: **a.)** exceptions in the case of inheritance; **b.)** exceptions in the case of tax evasion.

a.) Exceptions in case of inheritance

32. According to regulations of the law on land registration in our country effective before the war, when an acquirer had not submitted the request for registration, a probate court could order it ex officio, if that court had in its possession all the papers necessary for registration or if registration was based on a ruling made by that court. If the mentioned conditions were fulfilled, the probate court would order registration as soon as the document on delivery of inheritance became effective.

33. A probate court, which at once acts as the land registry court, is allowed to initiate the procedure for registration of titles in land registers ex officio if the heirs (or other interested parties) do not request registration. If land registers were kept in some other court, the probate court would ask the competent court to pursue registration. This rule was intended to avoid discrepancies between recorded information in land registers and cadastres most often related to inheritance. A departure from the principle of registration upon request by interested parties came about, allowing initiation of the registration procedure ex officio in the case of inherited property. Among the objections to the system of land registration, an important one refers to this very rule of registration upon request by interested party which, in the opinion of many critics, results in discrepancies between factual and legal situations, owing to the lack of interest on the part of individuals to require registration of their titles in land registers, in general, and especially in cases of inherited property. The rule on mandatory registration and the ex officio procedure in the so-called system of unique evidence is in this sense considered positive. But the same critics forget that the legislation of the first Yugoslavia allowed courts to act ex officio in the case of registration of inherited property.

b.) Exception in the case of tax evasion

34. Another exception is aimed at improving tax collection. If an interested party fails to request registration of a title that would provide a basis for tax assessment and collection, the land registry court which during probate proceedings learns of that title, is allowed to ex officio order that party to pursue registration within a particular time frame and thus to update a land register's records. The land registry court can act similarly when a cadastre office submits a request for recording a property right which is the basis for a tax assessment. That party is obliged to pursue registration within a set time period, with a progressive increase of the penalty fine upon repeated failure to comply.

35. Departure from the principle of registration upon request by interested parties in this case is not as direct as in the previous example. A land registry court cannot record a particular title on its own, given that it lacks the papers necessary for registration. Therefore, the court calls for the acquirer and after hearing, sets the time limit within which registration must be completed under pain of a fine. This is an indirect way of keeping land registers updated in cases when a person who acquires a particular title avoids registering it (either full or preliminary registration) in order to evade taxes. The court has similar competence to request the acquirer of a particular title to record that right in a land register where acquisition of property rights takes place at public a public auction in a bankruptcy proceeding.

Combining land registers with cadastres is not a good idea

36. Unlike the principle of registration upon request by interested parties, the system of unique evidence prescribes the rule of mandatory registration; the sense of this provision is that ownership (or any other real estate property rights) can be recorded in a cadastre without declaration of will, or even against the will of the acquirer (or mortgagee or any other title-holder). The title can be recorded ex officio, and not only upon request by legal subjects. Of course, the registration of a title upon request by the acquirer cannot be completely ruled out, but is certainly put in the background. The legislator primarily counts on efficiency of the ex officio registration, and harbors suspicion toward the possibility of registration upon request by legal subjects.

2. General overview of departures from so-called unique evidence with respect the basic characteristics of the system of land registers

37. The attempt to establish so-called unique evidence has come up against insurmountable difficulties in our legal system. Hypotheses on which this attempt is based cannot be modified to suit the basic principles of civil law; **a.)** It is not recommendable to put together two completely different kinds of record keeping; **b.)** Mandatory registration opposes the principle of disposition which is applied to subjective rights; **c.)** Assignment of record keeping to administrative officials means disregard for the principle of independence of judicial authority.

38. Ad a.) A claim or at least a belief that the evidence of facts (cadastre) and evidence of titles (land registers) could be put together is illusory or intended to mislead the uninformed. In the system accepted in our country, distinction between these two kinds of public registers is the basic characteristic of the system as a whole. Recording of titles in land registers is not only an act of evidence, but also a way of acquiring property rights. In this system the title basically cannot be obtained otherwise, while in Germany and Switzerland it cannot be obtained outside of land registers at all, while examination of conditions necessary for land registration and other kinds of registration of property rights requires differ-

ent procedures and broader knowledge and expertise than is prescribed under the Law on the State Survey and Cadastre and on Registration of Real Estate Property Rights in Serbia.

39. Ad b.) There is even less rationale behind another hypothesis on which this law is based. Mandatory registration opposes one significant characteristics of civil law. Namely, based on the principles of free initiative and of disposition, a title owner can exercise the right in question at his/her own will, including the right not to exercise it at all. Consequently, the acquirer of a certain right is free to decide whether to record it in a land register and thus acquire property rights or to abstain from registration altogether. If the acquirer is deprived of this possibility, what we then have has little to do with subjective rights in compliance with the legal tradition to which our legal system belongs, but rather with a hybrid creation of nebulous character.

40. Ad c.) Assignment of not only the record keeping of factual information, but also delegation of acquisition of real estate property rights to administrative officials and exclusion of these activities from the competence of courts might be the weakest point of the whole enterprise of the so-called unique evidence. Given to choose between the courts and administrative officials where introduction of a completely new activity is at hand, rational people will generally assign such an activity to the courts, especially if the courts had successfully pursued it so far.

The system of land registration is the best system

IV Conclusions

41. It is widely held that the system of land registration (the Austrian - German system) is one of the best, if not the best systems of public registration of real estate in the world.

42. The countries where this system originated (Austria, Germany, Switzerland) enjoy the reputation of being states that accomplished a high degree of legal safety owing to, among other things, improved and accurately kept land registers that insure protection of private ownership and reliable means of security for creditors through mortgages.

43. Some countries, such as France, Italy, Romania, in the provinces annexed after the wars (Alsace, and Mossel in France, Trentino-Alto Adigie and Friuli - Venetia Julia in Italy, Transylvania and Bukovina in Romania) kept the Austrian-German system of land registers in spite of different systems of registration of land in effect on the rest of their territories.

None in these countries considered land registers as an alien element in the system that should be removed, but pointed out the advantages offered by the system of land registers in comparison to their national systems.

44. After the disintegration of SFR Yugoslavia, the Republic of Slovenia, followed by the Republic of Croatia, opted for the system of land registers and adopted the corresponding legislation in that area.

45. The system of land registration in Serbia has a long tradition. Vojvodina started establishing land registers as early as 1855; land registers were established on the whole territory and had been kept and maintained accurately up to modern times. The system of land registers had been introduced already by the Serbian Civil Code and for a long period stood as an ideal model and something to be aspired to, but has never been accomplished for various reasons.

Unique evidence is a deviation relative to European legal tradition

The Kingdom of Yugoslavia finally approached the implementation of the idea, defined a long time ago, of establishing land registers; in a little over ten years (1930 - 1941) land registers were established on a large part of most vital and populated territory of Serbia. In that period Serbia was on its way to achieving the highest European standards in respect to real estate record keeping and registration of property rights for real estate. Both in Vojvodina and in parts of Serbia, where land registers were introduced, the system yielded excellent results, with no objections to the way it was functioning.

46. The idea of unique evidence emerged in Socialist Yugoslavia as a natural continuation of the basic idea of abolishing private property and other legal institutions (mortgage, etc.) and systems referred to as bourgeois law. The authorities first encouraged the minimization of their role and neglected their significance, disregarding land registers as inaccurate and outdated. At the same time they strongly supported the idea of so-called unique evidence which was intended to replace all existing types of record keeping, including land registers.

47. The so-called unique evidence is an unsuccessful attempt both in conception and realization. The idea emerged in the period of significant legal departures from the European legal tradition and experience. The laws on the state survey, on cadastres and on registration of real estate rights which frequently overlapped one another took over almost all technical solutions of the system of land registration, but fell short of the fundamental principles which signify their ultimate values. These departures from the rules of the system of land registration refer to the following: **a.)** evidence of factual information that is kept in cadastres in the system of land registration and decision making on acquisition of property rights which is the subject to land registers are fused together; **b.)** mandatory registration is stipulated, contrary to the fundamental principle of free initiative of interested parties; and **c.)** competence is not assigned to the court as an independent and autonomous institution, but to administrative officials whose actions, due to the principle of subordination, do not inspire confidence of the sort that can be expected from independent and autonomous judicial officials. The project of unique evidence failed in its realization, as well. At first, in 1988, when the first law was passed, it prescribed that the whole project was to be accomplished in ten years. Today, after twelve years, the promise has not been kept and it is not clear when it will be.

48. Considering this its duty, the Serbian Association of Lawyers addresses the Serbian Ministry of Justice, the Supreme Court of Serbia, Faculties of Law and the informed public, pointing out that, after long standing efforts, confusion, improvement during the period 1930 - 1941 and later departures and deviations we should restore legal solutions which are confirmed in practice and which would bring us closer to the standards of civilized legal tradition.

It is necessary to adopt a new law

In this sense it is necessary to adopt a new, modern law on land registers, with improvements over resolutions in the 1930 Law, taking into account experience from comparative jurisprudence. This should be followed by reconstruction of land registers in regions where they already exist, with their subsequent establishment on territories where there are none.

Dejan Gajic

Macroeconomic Topic

Military Industry Problems and Prospects

Military industry suffers great difficulties

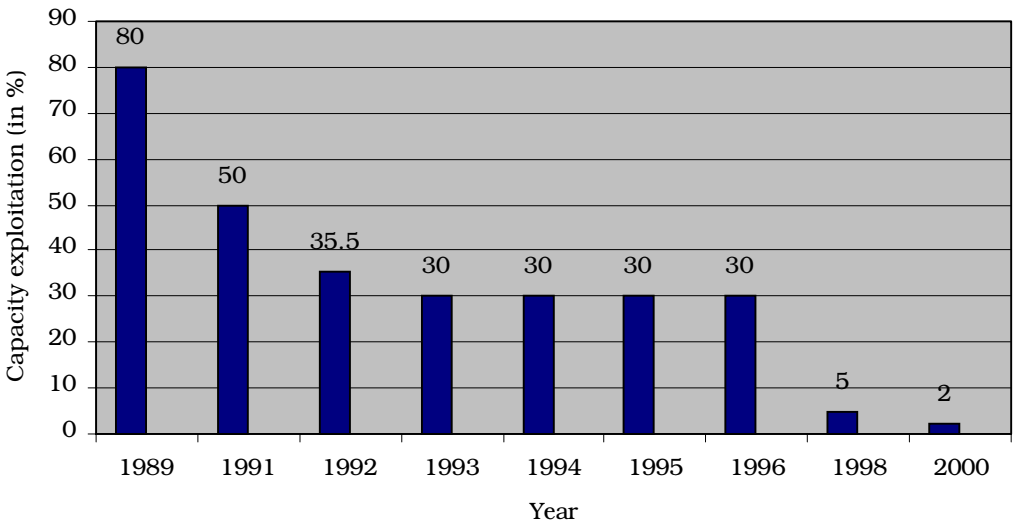
Introduction

The former Yugoslav People's Army (JNA) and its military industry were the pride and joy of the former SFR Yugoslavia. In fact, with regard to all parameters, capital, technology, personnel, and today the most important, economic parameter, the military industry used to be one of the most successful industries in the former Yugoslavia. The domestic military industry supplied the overall needs for various types of arms and equipment of the former JNA, and at the same time exported about 30% of its output, achieving a considerable foreign exchange influx. The former Yugoslavia used to be one of the leading arms exporters among European countries. The military industry encompassed 56 industrial complexes and about 1,000 associated enterprises. Within this figure, about 44% were situated in Serbia, 42% in Bosnia and Herzegovina, 7.5% in Croatia and the rest in other republics. Due to the specific status and influence it used to have, the Army was considered the best business client. However, numerous reasons affected the downfall of the military industry in FR Yugoslavia: violent disintegration of former SFRY, UN sanctions, the NATO bombing, the transition to a market economy, etc. Some general data indicate that the FRY military industry was exploiting only 20% of its capacities in the mid-1990s, making 7% of its overall profits from exports, while military experts estimated technological capacities of the Yugoslav military industry to have fallen behind corresponding capacities in the world by 10 years. The damages sustained in the NATO bombing are estimated at about EUR 1 billion; some key technologies have been destroyed, while the manufacture of particular arms and equipment is no longer possible; capacity exploitation is confined to as little as 10%, and employment, although significantly reduced, still exceeds the optimum by 30%.

Legal Status and Ownership Structure

We will begin an overview of conditions in the Yugoslav military industry with a survey of the legal status and ownership structure in enterprises, since it is clear that, considering all circumstances, transformation of the military industry is not likely to yield results without determination of ownership, i.e. privatization. Thus, "Prva Iskra - Namenska proizvodnja" since its founding had operated as an autonomous enterprise within the SOUR "Prva Iskra - Baric", but left the system in 1989. Today, "PI - Namenska proizvodnja" operates as a joint stock company, i.e. Company "Prva Iskra - Namenska" a.d. The enterprise "Prvi Partizan" from Uzice operates as a publicly-owned company with full liability. As regards the ownership structure, 51% is state-owned and 49% publicly-owned. The enterprise "Prvi Partizan" participates with 12.8% in fixed assets of the joint stock company "Prvi partizan Promet" from Uzice and with 8.71% in fixed assets of the joint stock company "Knjigovodstvo and AOP" from Uzice. "Zastava Namenski proizvodi", Kragujevac operates as a publicly-owned company for production and trade in arms. The structure of capital is dominated by state (51%) and social capital (43.2%), while the Development Fund of the Republic of Serbia owns 5.8%. The holding corporation "Krusik" a.d. is a system composed of the corporation "Krusik" as a parent company and "Krusik" subsidies. For future transformation it is important that "Krusik" system has so-called flexible holding relations, meaning that the subsidies (independent business units - NPJ) operate autonomously in relation to the parent company. The

Capacity exploitation in "Prva iskra" according to analysis of achieved production in the last ten years



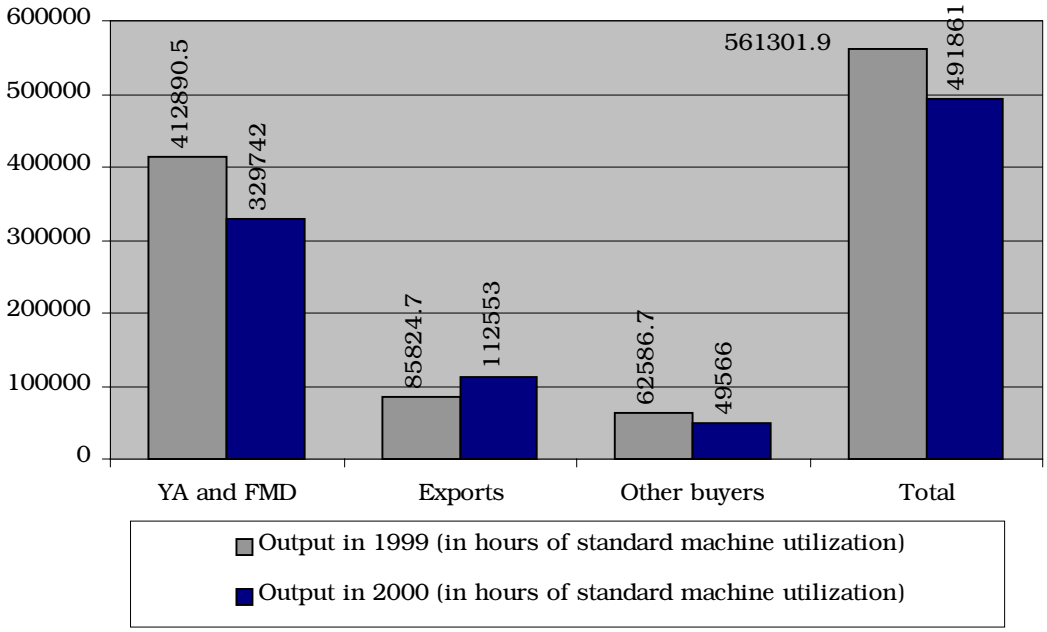
structure of capital in the NPJ's is the following: 51.18% state-owned and 48.82% publicly-owned.

Capacity Exploitation

Analysis of the achieved output in "Prva iskra - Namenska proizvodnja" in the last ten years shows a sharp and constant drop in output volume of military products (brisant explosives).

This catastrophic drop in facility exploitation in "PI - Namenska proizvodnja" resulted from the fact that 80% of the former explosives purchasers were from the former republics. The ratio of the available and optimum capacities in the enterprise "Prvi Partizan" measured in hours of standard machine utilization indicates that the available capacities exceed the optimum by 25 - 50%. The accomplished exploitation of capacities relative to the available

Prvi Partizan - Output achieved in 1999 and 2000



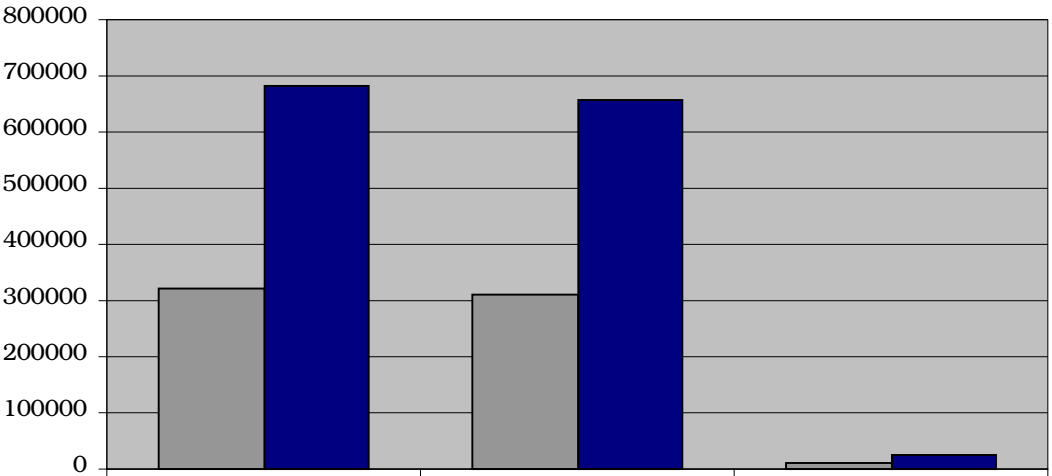
number of production workers, measured by the ratio of the available, against the achieved hours of standard machine utilization, for the total production (rifle, pistol and revolver ammunition) was 66.27% in 1999, and 50.58% in 2000, which is a solid degree of exploitation of capacities, in spite of the overall downward trend, with regard to other enterprises in this field. According to the latest figures, capacity exploitation in the enterprise "Zastava Namenski Proizvodi" is about 33%, while HK "Krusik" achieved 54% in 2000, i.e. 67% (measured in hours of standard machine utilization) in 2001.

Existing capacities are nor sufficiently exploited

Physical volume of output, performance and export value

Enterprises with both civilian and military production capacities largely reoriented towards production for civilian markets, especially after the NATO bombing. "Prva Iskra"

"Krusik" - Profit in 2000 and 2001 in YuM thousands



	Income	Expenditures	Profit
2000	320158	309244	10914
2001	682738	656639	26099

planned to increase physical volume of output by 53%, i.e. output value by 71% in 2001, relative to 2000. However, due to the lack of assets for recovery of military production, only 13% of the projected output volume was achieved in the first six months of 2001 (323 t projected in the first six months of 2001, only 42t achieved). Subsequently, emphasis was put on the civilian program which resulted in realization of 75% of the targeted volume. "Prvi partizan" also failed to accomplish the output targeted for 2000, while the output volume achieved in 2000 was down relative to 1999. But, with regard to the same period, exports increased: they accounted for 10% of the total output in 1999, but in 2000 they rose to 11.5%.

After the NATO bombing, the production process in HC "Krusik" was completely stopped; production was performed in inadequate conditions in rented premises. The production process and overall business activities of the company have been partially restored owing to the assets allocated for reconstruction in 2000, as well as to the resolution of the problem of redundancies and the closing of export arrangements. This resulted in the doubling income from sales and exports in 2001, compared to the figures of year 2000, and a consequent doubling of the profit.

Number of Employees and Qualifications Structure

Redundant labor

As regards the number of employees and qualification structure, "Prva Iskra Namenska" employs 180 workers, "Prvi partizan" 1,175, out of which over half are redundant in terms of optimum capacities; "Zastava Namenska" employs 3,760 workers, 800 of them as redundant, HC "Krusik" employs 2,352 workers, with 20-30% redundancies compared to present production levels, but redundant labor in this company could be used productively if there were significant increases in production volume. The qualifications structure in all these companies is not favorable either, due to the high share of unskilled, semi-skilled and skilled labor, which again points to the condition of technical equipment, i.e. outdated production facilities in these companies.

Qualification Structure of Employees			
Qualification	Krusik	Prvi partizan	Prva iskra
Unskilled, semi-skilled	893	381	22
Skilled	401	227	8
Secondary education	491	225	69
Highly skilled	217	199	3
Two-year post-secondary	133	53	9
University education	208	87	29
M.S.	8	3	
Dr	1		
Total	2,352	1,175	180

The basic problems in business performance of these enterprises are the following:

- Lack of financial assets for continuing reconstruction of production facilities;
- Reduced business arrangements and contracts with the Army and the Police as major buyers;
- Impeded and to a great extent reduced contracts with foreign customers, especially in the North-American market, due to unregulated trade relations;
- Lack of working capital for the current financing of the production process;
- Lack of assets for development and introduction of new products and technologies as a key factor of diversification of available products, improvement in quality and product competitiveness;
- Unresolved problem of redundant labor;
- Inability to pay all the obligations towards the state due to the impossibility collecting on debts from formerly contracted arrangements with the Army and the Police;
- Impossible to collect assets from foreign countries for goods exported and delivered on the basis of international contracts concluded in the former period;
- Sharp drop in supply of arms on the domestic civilian market (by 5.5 times), due to the taxes on arms;
- Increasing liabilities of enterprises because of loans from banks and suppliers due to the depletion of their own reserves.

Advantages of Our Enterprises

Despite these problems, the enterprises described their greatest advantages as follows: maintained level of quality of products, competitiveness on the international market, know-how and experience of employees. Owing to the personnel structure, enterprises consider themselves capable of mastering the manufacture of new products for military needs in the

armies of other countries. It is also important, for example, that the quality of products in "Prvi partizan" be adjusted to the standards in force in NATO countries, as well as to those on the North American and European markets; as of 1996 this company owns a certificate on adjustment of their quality system to the JUS ISO 9001 standard. The quality system will be further improved.

Additional Remarks

It is unrealistic to hope that the Yugoslav military industry can regain the position it used to have. International markets certainly can and should play an important role for our military industry, but not to the extent experienced in the 1970s and 1980s. The world market is saturated with stocks from the former communist countries of Central and Eastern Europe, which has resulted in a sharp drop in the price of military arms and equipment and a decrease in profits. This inspired aggressive behavior on the part of military industries in developed countries. Secondly, a long-term strategy of development in the military industry of the future state must be based on respect for the strategic situation in the world, i.e. the key role of NATO in shaping the military and security situation, and the necessity for our country to join the Partnership for Peace. The final observation refers to the fact that all military industries from the former Eastern Block faced or are currently facing this problem, but not with so many challenges as our country. The problem of recovery in the military industries in these countries became an inseparable part of their reforms (the restructuring and privatization process) in enterprises in this area, and a clear national commitment to join all European economic and military organizations, in particular NATO. The majority of enterprises shifted toward production for civilian markets (about 80%), some were closed, while the remaining enterprises or their segments made arrangements with foreign direct investors such as "Boeing", "Lockheed Martin", "Saab British Aerospace" "Rockwell Collins" etc. Within their strategy for joining NATO, Hungary, Poland and the Czech Republic, as present members had to gradually increase their military budgets, without exceeding GDP 2-3% today. The situation is similar in other countries in the region, unlike the military budget in our country which until recently accounted for almost 10% of the impoverished social product. A very small share of the total Yugoslav military budget is deducted for development of the military industry, in contrast to some EU member states which deduct over 40% of their military budgets for that purpose. This is a very difficult, expensive and complicated process, but it has no alternative and still yields results. After the disintegration, military industries of the countries in the region have started to recover slowly, which is confirmed by the constant growth in their exports.

New situation on the world market

Recommendations

In conclusion, recommendations for recovery are:

- Our military industry must conform to clear market oriented criteria;
- Wherever possible, the military industry should redirect its activities towards the civilian market, including abandonment of domestic production and development of particular military programs. 25% of the current capacities of the military industry are estimated as sufficient for servicing the needs of the Yugoslav Army, while the remaining 75% must be shifted to civilian programs. For sheer survival, some enterprises have already redirected their activities. This is possible in all the described enterprises, except "Prvi partizan" due to specific features of the machinery for production of ammunition; but ammunition could become the main competitive product of the future military industry;
- The military industry needs a clear and unambiguous long-term strategy as an integral part of the overall national strategy that would define the place of our country in the world, in a military and security context. If our goal is the Partnership for Peace, the future state and economic diplomacy must put more effort toward this, but at the same time to work on opening other markets, the North American in particular, for our enterprises in this area.
- In order to compete on world markets, enterprises in this area will have to undergo the process of ownership transformation, i.e. privatization. The Federal Government is determined to privatize these enterprises through a special program and to preserve major state ownership in the military departments of these six companies: "Zastava", "Prvi Partizan" "Sloboda" "Krusik" "Milan Blagojevic" and "Prva Iskra", while in the reamining military industry companies, state ownership will range between 10 and 40 %. Except for these six enterprises which could be organized as a strong state concern, state ownership is not a great solution and could be viewed rather as a transitional answer.

Necessary adjustments, clear strategy and strategic investors

Financial investors are excluded from privatization in this branch due to its specific character, but it is theoretically possible since enterprises lack financial assets for current business activities and development, while at the same time they already have competitive products and the know-how for expanding the range of products and the development of technologies. Accordingly, benefiting from the experience of other countries in the region that are already NATO members or are included in the Partnership for Peace, it is necessary to attract strategic investors with experience in this field, who have market access, capital, know-how, technologies for preparing our enterprises for performance on the world market; as well as to start harmonization of the legislation in this field and education of staff.

Editor
Dr Mirosinka Dinkic

Prices
Kosovka Ognjenovic, MS

Wages
Labor Market
Jelena Momcilovic

Pensions
Iva Jovanovic

Output and Services
Aleksa Nenadovic

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Aleksandra Brankovic

Monetary Policy and Public Finance
Scepan Jojic
Iva Jovanovic

Macroeconomic Review

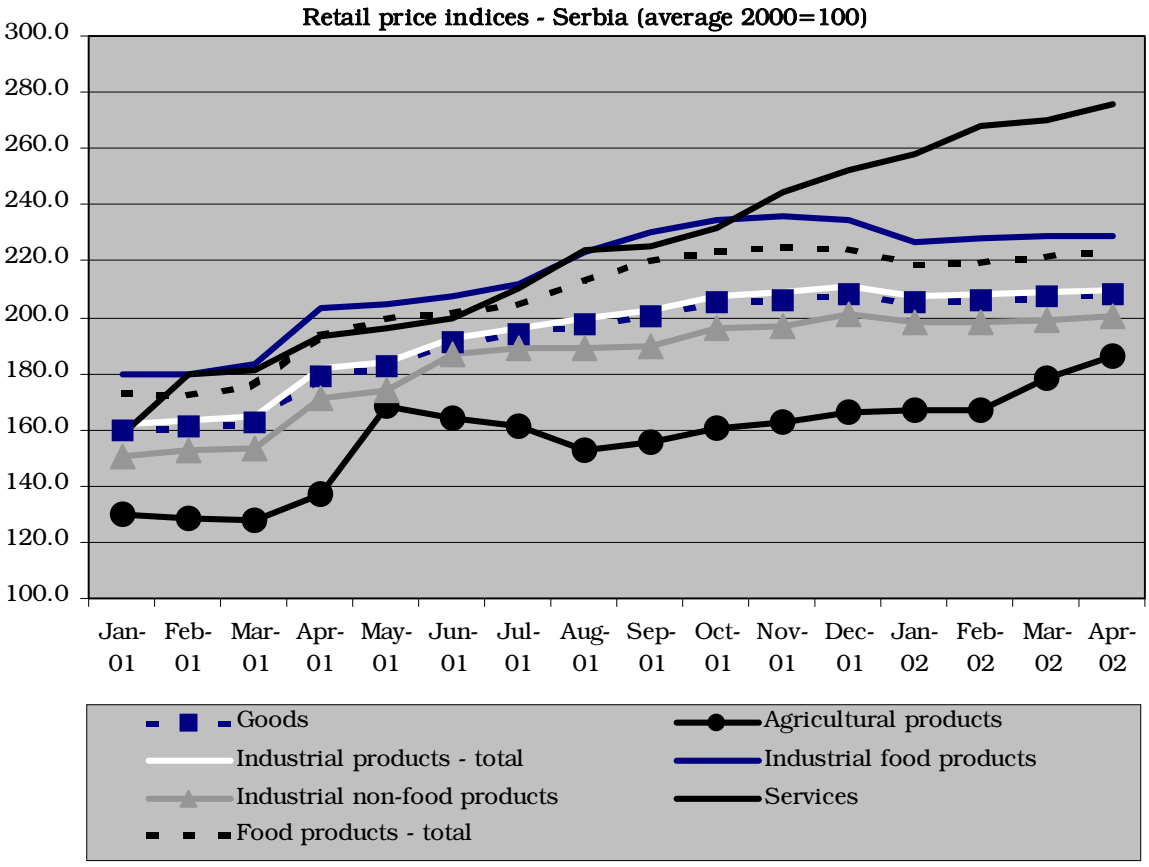
Increase in Exports under the Conditions of Macroeconomic Stability

Macroeconomic stability is favorable. A trend of slow retail prices and consumer price growth was sustained in April. This resulted from a decelerated growth in prices of industrial products since the prices of agricultural products grew at a faster pace, due to seasonal impacts, along with the price of services. In general, economic activity showed an upward trend. The physical volume of industrial production in April increased compared to the 2001 average, but was a little lower by comparison with previous months. A similar trend was registered in construction and tourism, while retail trade turnover registering a considerable increase in real terms. Foreign trade was also marked by positive trends. Exports in April were significantly up month-on-month, while imports decreased. This resulted in a lower foreign trade deficit. The total demand in real terms is notably balanced with the real volume of supply. The average real net wage in April was up relative to the previous month, while the average real net pension decreased. The registered unemployment rate displayed a mild growth. The interest rates at financial markets were slightly reduced, but not enough, considering the low inflation growth. The achieved inflow of public revenues services budgetary obligations and obligations that are part of social insurance.

Prices

At the beginning of the second quarter, retail prices in Serbia registered a faster dynamic, relative to the end of the previous quarter, while consumer prices grew at a considerably slower pace. Retail price growth averaged 0.9%, while consumer prices rose by 0.6% month-on-month.

Retail price growth in April was mainly due to the increase in the price of agricultural products and the price of services. Industrial products were up by 0.2% on average, owing to the faster growth in prices in the group of industrial non-food products. Prices of agricultural products cumulated higher growth compared with the winter and spring months because of seasonal oscillations, which resulted in the average growth rate of 14.8%, compared to December 2001. On the other hand, a group of industrial food products recorded a deflation in prices. Compared with December 2001, on average, prices of industrial food products were down by 0.2%.



The price of services in April continued to grow at a faster pace than the price of goods. Relative to December 2001, growth in the price of services averaged 9.4%, while the price of goods rose by 1.5%.

All the indicators of inflation monitoring show that, after deceleration in the previous year, it continued to grow at an increasingly lower rate in year 2002. Compared

with December 2001, prices were up by 3.3%; as for the average in the first four months of 2002, compared to the same period in the previous year, total inflation is 27.4%. If prices continue to change at the current pace, the total year-end inflation will be significantly lower than the projected 20%. But, the projected inflation rate includes an increase in the price of electricity, while in the first four months only several corrections were made in the group of public utility prices and passenger rail transport.

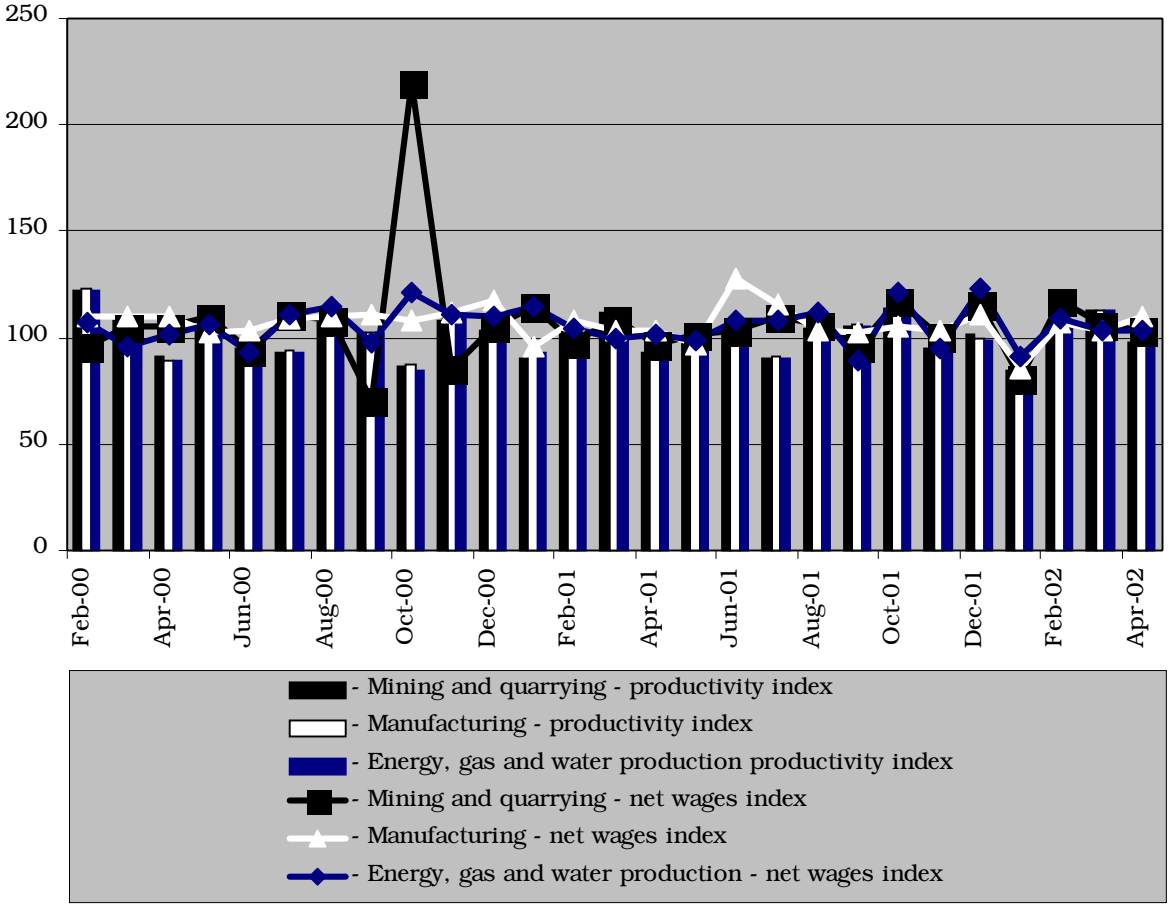
The dynamic of retail prices in this quarter is hard to project, but it is certain that a significant correction in electricity price lies ahead at the end of this or the beginning of the next quarter. Namely, designing the program of economic policy measures, the Government stipulated several increases in the price of electricity which should bring the price to the level sufficient for covering production costs. Realization of the full economic price of electricity will partly be postponed for the coming years. (The current electricity price covers only 50% of production costs)

After a two-month deflation and an unchanged level in February, growth of industrial production prices averaged 0.20% in April, which mainly resulted from increases in prices in the segments of mining and quarrying. According to last-month's trend in industrial production prices, the consequent increase in the cost of other goods and services is not very likely, which will contribute to stabilization of the general level of prices.

Wages

The average net wage in April was YuD 8,739, displaying a nominal month-to-month growth of 6.5%. The costs of living were up 0.6%, while the average wage rose by 5.9%, in real terms. The nominal net wage in the economy in April reached a level of YuD 8,364, while in the non-economic sector it was YuD 9,895, but in both sectors wages increased by the same growth rate. The consumer basket in April was valued at YuD 10,930; the ratio of the consumer basket to the average net wage was 1.3. Real wages in April were up by 64.5% compared with June 2001, when the new accounting method was applied.

Chain index of productivity and net wages by economic sectors - Serbia (02.2000. - 04.2002.)



Pensions

The average pension paid out in April was at the level of the pension paid out in January, which is YuD 5,988. Relative to March, the average pension was down by 6.1%, or by 6.7% in real terms. The purchasing power of the average pension has not changed significantly relative to January. A ratio of the average pension to the value of the statistical consumer basket per one household member in April was 0.46. This indicates that the average monthly pension paid out in April, as well as the pension paid out in January, covered only 46% of the food and beverage costs included in the consumer basket. Relative to the previous month, the purchasing power of the average pension decreased, since the purchase of the same goods included in the consumer basket required 0.43 of the average pension in March. A ratio of the average pension and the average wage in April worsened relative to the several previous months. The average pension paid out in January accounted for 80.4% of the average net wage, while in April this ratio was 68.5%.

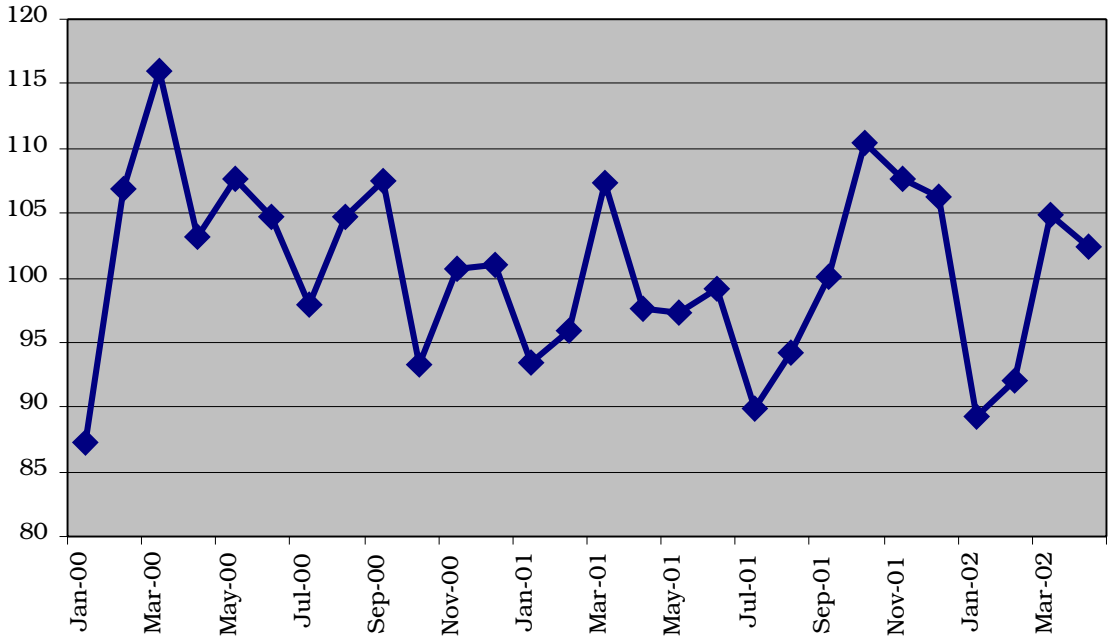
Labor Market

According to the data of the Republic Bureau for the Labor Market, unemployment in Serbia in April reached the figure of 805,000 persons, which is up by 4.6% year-on-year. The average monthly number of unemployed in the period January - April 2002 was 798,000, displaying an increase of 5.5%, compared to the same period in the previous year. New jobs in the period January - April 2002 totaled 141,000, registering a growth by 8.6% year-on-year. The structure of employment indicates the still rigid structure on the labor market. Fluctuation (direct transfer from one job to another) in the surveyed period averaged 34.4% of the total number of new jobs, displaying a mild increase compared to the same period in 2001, when fluctuation accounted for 31.3% of the total number of new jobs. The number of vacant posts in the period under consideration was 168,000, and consequently, new jobs met only 84.3% of needs, which is higher relative to the same period in the previous year when coverage was 78.8%. The unemployment rate in April was 28.3%, indicating a mild increase month-to-month. (26.76% in April 2001). Employment in the publicly-owned sector was down by 5.55% year-on-year, while in the private sector it grew by 5%, and in small enterprises, by 2%. According to the latest data from the Republic Bureau for the Labor Market, the number of unemployment allowance beneficiaries in February was 57,903 persons, which is up by 27.5% compared with February 2001. Out of the total unemployment allowance beneficiaries, 53.3% lost their jobs as redundancies and 27%, due to bankruptcy. The Ministry for Labor and Employment and Republic Bureau for the Labor Market adopted a social program for the employed who stand to lose their jobs in the process of restructuring of enterprises, preparations for privatization, liquidations and bankruptcies. The program sets the rules for defining redundancies and introduces measures for their new employment, the volume and source of assets necessary for realization of the Program, the beneficiaries of these assets, conditions and ways of their utilization.

Output and Services

Industrial output in FR Yugoslavia in April was down by 2.7% month-on-month, but at the same time production in the de-seasonal series rose by 2.7%. Physical volume of industrial production in both republics in April was lower than in March - by 2.6% in Serbia and by 5.6% in Montenegro. With regard to destination of consumption, all three groups recorded growth in the de-seasonal series, indicating well-distributed growth among industrial sectors. Output (in the de-seasonal series) of capital goods rose by 15.2%, consumer goods by 5.2% and intermediate goods by 1.9%. April was a successful month not only in terms of the continued upward trend in output, but also in terms of recorded increase year-on-year for the first time this year (by 4.6%). Comparing the first four months of this year with the same period in 2001, output dropped by 1.4%, but this stands as an improvement relative to the drop by as much as 3.3% in comparison of the first quarters of this and the previous years.

Industrial Production Indices - Serbia (average 2000 - 100)



With regard to *the Classification of Economic Activities*, all three sections were down relative to the previous month: mining and quarrying by 1.4% (mining of coal and briquette production were down by 9.5%), manufacturing by 2.0% and electricity, gas and water supply by 7.4%. As for manufacturing, the manufacture of food products and beverages increased by 5.3%, the manufacture of tobacco products, by 8.1%, the manufacture of machinery and equipment, except electrical, by 7.7%. The sharpest drop was recorded in the manufacture of coke and refined petroleum products (-

61.8%). Nevertheless, production in this area in the first four months was up by 28.2% compared to the same period the previous year.

Industrial output in Vojvodina fell relative to the previous month. But since this is a regular seasonal drop in April, the more important fact is the year-to-year increase of 4.6%. Compared with the first four months of the previous year, output in Vojvodina rose by 0.8%. As in Serbia, production registered a decrease in all three sectors relative to the previous month: mining and quarrying by 3.2%, manufacturing by 7.5% and electricity, gas and water supply by 14.4%. As for the two most important areas, manufacture of food products and beverage was up by 8.6% and manufacture of chemicals and chemical products decreased by 1.6%.

Retail trade turnover in Serbia in April rose by 4% month-on-month, both in current and constant prices. Enterprises project a further upward trend in May with the 4% increase in turnover relative to April. Retail trade stocks remained at the level of the previous month.

Wholesale turnover in April grew by 6% relative to March in both current and constant prices. Enterprises project a month-on-month increase by 5% in May. As in retail trade, wholesale trade stocks are at the previous month's level.

Construction activity in Yugoslavia in the first three months of this year rose by 34.7% year-to-year, while effective hours of work decreased by 12.8%; the number of employed in construction was down by 10.8%. In view of the de-seasonal series, the number of effective hours of work in March was down by 1.9%, compared to February.

In the first three months of 2002, catering accommodation facilities recorded a drop in volume of 5.4% year-on-year, while the number of tourist-nights was down by 10.3% on the territory of the FRY. Accommodation facilities exploitation net rate in March averaged 26.4%. According to the data of the National Bank of Yugoslavia, the registered foreign currency turnover in tourism in January was valued at US$ 3.1 million, which is up by 47.6% relative to the January 2001.

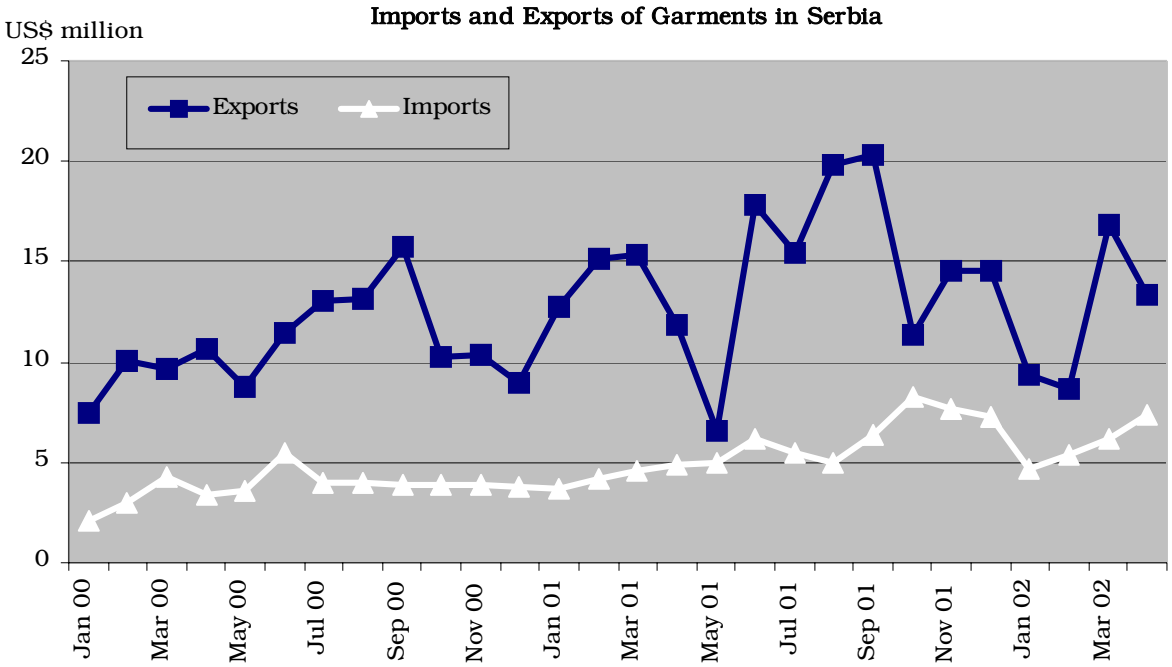
Foreign Trade

The preliminary data on foreign exchange indicates that the commodity exports in Serbia in April were valued at US$ 173 million. Measured in nominal US$, commodity exports were up by 27% year-on-year, resulting in the 7% increase in exports in the first four months of 2002 relative to the same period during the previous year. Commodity imports were valued at US$ 389 million, which is an increase of 13.5 % compared to April, i.e. by 8% compared to the first four months of the previous year. The dynamics of commodity exports and imports are more balanced, but commodity imports still considerably exceed commodity exports in terms of value (2.7 times), resulting in a further increase of the foreign trade deficit in the period January - April 2002, which is up by 8.5% compared with the same period in 2001.

The structure of foreign exchange according to the international trade classification (SMTK) specifies two fields which recorded a surplus in foreign exchange in the first quarter of 2002: food and live animals, and animal and vegetable oils and fats. Growth in the former was achieved largely owing to last year's recovery in agricultural production from the 2000 drought. Exports in this area rose by three-quarters or about 50 million nominal US$ year-on-year, reaching almost one-fifth of total commodity exports. The highest increase in exports in this field and the highest share in exports is registered in the following areas: sugar, sugar products and honey (at the same time the largest increase in one SMTK field - about nominal US$ 25 million), cereals, fruits and vegetables.

A significant increase in exports in absolute terms was registered in the field of petroleum and petroleum products and electricity. Both fields still stand as the important items in commodity imports, but the value of their imports was reduced relative to the previous year (petroleum and petroleum products account for the one-tenth of Serbian commodity imports, which is a drop relative to the first quarter of 2001, when this sector accounted for 14% of imports). As regards electricity, since an increase was not registered in production compared to the first quarter of 2001, a growth in exports and a drop in imports could be explained by lower household consumption due to weather conditions. The trade deficit in petroleum and petroleum products of around nominal US$ 50 million mainly resulted from the increase in production of petroleum products by 30%, compared to the first quarter of 2001.

Garments, which usually have the largest share in the Serbian commodity exports, accounted for 8.4% of exports in the first four months. But the value of these exports was down by 12% (measured in nominal US$) compared to the same period in the previous year. Similarly, the footwear export value is lower by 17%. These figures mainly resulted from the



fact that the major part of exports in these area is not a real export, but includes subcontracting activities. These industrial fields are work-intensive, so that countries in transition, as well as other countries with cheap and qualified labor, are familiar with different models of cooperation between domestic companies and those coming from developed countries. Foreign companies are usually attracted by lower labor costs, while domestic companies join the cooperation in order to engage their capacities and achieve foreign currency influxes. The downside of such arrangements refers to their short-term nature; they provide neither know-how transfer, nor fundamental restructuring of domestic companies. In this area foreign companies move easily from one country to another in search of cheaper labor. This is the reason for possible fluctuations in the value of commodity exports in this field.

Monetary Policy And Public Finance

Money supply at the end of April was YuD 79.26 billion, which is up by 5.41% relative to the end of March. The M1 increase resulted from a significant growth in liquidity of banks due to the reduced level of reserve requirements. As of April 11, 2002 reserve requirement rates were set at 20% for both dinar and foreign deposits, whereby RR on dinar deposits are allocated in dinars and on foreign deposits in foreign currencies. The previous RR rate was 24.5%, calculated on dinar deposits only. This measure would help the central bank to pursue better control over the money supply, since until now some banks tried to avoid RR through misreporting in their balance sheets, i.e. displaying dinar deposits as deposits in foreign currencies.

The NBY has brought a series of new decisions taking effect on April 1, 2002 including issuance of treasury bills with 45 and 60-day maturities, while subscriptions of bills with a 10-day maturity are no longer available. The new measures also include opportunities for banks to transfer their excess liquidity to an account with the NBY, as well as loans intended for management of daily liquidity, subject to foreign exchange depositing with the NBY, or otherwise collateral in the form of the NBY bills. The newly-introduced measures should foster open market operations as a money supply regulating framework that is more efficient and immanent to a market economy than is the case with direct crediting of banks.

The average interest rate on short-term securities on the money market in April dropped slightly from 3.39% to 3.18% per month. Considering the stability of the exchange rate and the general level of prices, interest rates are still too high, placing an undue burden on the economy.

Public revenues collection in April rose by 7.12% month-on-month, reaching the figure of YuD 42.492 billion. The budget revenues collection totaled YuD 25.902 billion, up by 7.31%.

Relative to the previous months, the revenues of social insurance organizations increased by 6.82%, to a level of YuD 16.59 billion. Budget subsidies to the old-age pension and disability insurance funds of the employed and farmers in April were lower by YuD 747,000, which, together with contributions to the PIO Fund of farmers that are lower by YuD 42,000 in April, contributed to the 1% decrease in the PIO organizations revenues month-on-month. Contributions to old age pension and disability insurance of the employed increased by 11.7% in April, compared to the previous month.

The revenues of public health organizations were up by 21.8% month-on-month, while unemployment insurance revenues rose by 61%.

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On the Path to a European University Law

A seminar "On the Path to a European University Law", organized by the Conrad - Adenauer Foundation, by the Ministry of Education and Sport, the Ministry of Science, Technology and Development in the Government of the Republic of Serbia and by the G17 Institute, was held on May 23, 2002. After the opening speech held by ***Dr. Georg Risel***, Head of the KAS branch office in Yugoslavia and Dr. ***Aleksandra Jovanovic***, Head of the G17 Institute Institutional and Legal Reforms Department, participants were addressed by ***professor Dr. Srbijanka Turajlic***, Assistant to the Minister for Education and Sport, who spoke about the current situation in the area of university education in Serbia. After a short overview of the state of affairs after World War II, through to the 1990s, she described the previous decade as a period of protests and agreeing. Presenting the new University Law, professor Turajlic said that the main objective is to create a modern university in compliance with the Bologna Declaration. As for two-year post-secondary schools, in her opinion, they should be grouped in universities of applied studies. It would be good to adopt a University Education Law which would, among other things, introduce the category of an Accreditation Agency. This Agency would stand as a kind of a litmus test for new universities to be open and for the current ones to continue working.

Another problem of university education in Serbia is a traditional university system, fear of state influence, insufficient responsibility and experience with reforms, a problem of changes in the value system, brain drain, as well as the fact that this reform would yield visible results only later. Professor Turajlic also stated that the University Education Law should enable university institutions to undergo reforms; it should provide autonomy, stressing that autonomy guarantees a freedom of choice, but requires responsibility, as well.

Mrs. Steffi Schnor, former Minister of Education in the government of FR Germany and current deputy in the district parliament, stressed that Serbia needs a University Education Law, since the Bologna Declaration, which is to be accepted by the Serbian universities, requires particular obligations to be accepted - adjustment of the structure of university institutions to the standards of the European Union among other things. In her opinion, universities are the ones which should initiate preparation of such a law. This is important for improvement in the quality of teaching essential for stopping the brain drain. Mrs. Schnor also mentioned the issue of education and additional education of the lecturers and professors as an important element in improving the quality of teaching. Mrs. Schnor agreed with professor Turajlic that governments and parliaments have to place the onus of responsibility on universities. In her opinion, a new freedom of universities means that they are expected to accept a higher degree of responsibility, i.e. personal responsibility of their leadership, as well as responsibility of lecturers for the quality of their teaching.

Professor Dr. Jurgen Keller discussed the models of relations between the state and the university. He stated that the role of a university opposes the functions of the state: a university is concerned with knowledge, i.e. truth, while politics favors populism over truth. In professor Keller's opinion, the university should base its developmental strategy on the quality demanded on the labor market. He stressed that university should be qualified for autonomy, while politics should concern itself with providing conditions for that process - after these conditions are established, the state should partially withdraw, implying that the relation between the state and university should be based on trust.

Professor Keller also discussed the necessary unity of teaching and research - interactive teaching: students' input encourages research, while the resulting output is transferred back to the students. Consequently, professor Keller sees research as a productive - missionary process: without students, it is not productive, since it lacks transfer of output of the research process.

Dr. Joseph Lange, State Secretary of FR Germany, viewed university education as a common good and common responsibility; consequently, adoption of the University Education Law is necessary since it defines the university institutions that exist in one country, while at the same time guaranteeing autonomy, freedom of research and independence of science. Professors would get their titles according to this law which would regulate financing of universities, prescribe the quality of curriculums and the web modus of studying. In Dr. Lange's opinion the future of university is differentiation, i.e. individual profiling of faculties, openness to interdisciplinary cooperation, international and intercultural cooperation, introduction of information and communication technologies and institutional autonomy of universities. Dr. Lange stresses that competition in this area affects prompter reactions by universities, competition for better students and teaching staff, while the set concepts, strategic planning and contracts between the state and university stand as a clear sign that the university has developed a sense of responsibility for students, maintaining the quality of teaching and funds from which it is financed.

Dr. Ruzica Nikolic, professor at the Kragujevac University, addressed the issue of the accreditation process at the university level. She gave a brief presentation of the historical development of accreditation and bodies in charge of this process. At issue is a binary system: university institutions, i.e. the corresponding program, is assessed as positive or negative. One of the criteria is *a control of products* - how successful the students are on the labor market. The purpose of accreditation is a working license, not ranking. The accreditation process was introduced for the sake of transparency in the work of university institutions, minimal quality of teaching, as well as mobility of students at the level of university networks.

Mrs. Steffi Schnor and professor ***Dr. Branko Medojevic***, Dean of the Faculty of Economics, University of Belgrade, raised the subject of the system of financing of universities and faculties. Mrs. Schnor explained that a portion of assets for financing state universities must be provided by the state, but since these assets are limited, some additional financing options must be found. However, the most significant characteristic of assets provided by the state is their reliability. Other resources come from the business community and are largely allocated to financing research. Therefore, in Mrs. Schnor's opinion, these assets must be tax-free. Former students should also bare responsibility toward the school they used to attend and invest in its future development. The issue of self-financed students is very delicate. Mrs. Schnor stressed that intellectual ability and interest on the part of a student, rather than financial power of his/her family should be the proper basis for getting an opportunity to study. Professor Medojevic believes that faculties should be financed from resources provided by the state and the business community, but he also underlined that students should also invest in themselves to some extent. The issue at hand does not concern financial discrimination of students, but rather the fact that those assets would allow improvement in the quality of teaching and stand as a deposit for the future.

Professor Medojevic added that we are far from the European university law - some European standards must exist and be obeyed, but full standardization would be harmful since it would cancel competition as one of the prerequisites and motives for scientific work and research.

The seminar "On the Path to a European University Law" provided an opportunity for exchanging experiences in the area of university education between FR Germany and Serbia. Thanks to the Conrad - Adenauer Foundation, experts from corresponding ministries in the two republics had a chance to hear the opinions and positions of their counterparts from Germany who were introduced to the problems facing Serbian universities and experts in the field of university education. In the course of discussion, participants agreed that Serbia needs to adopt the University Law, to introduce the Accreditation Agency, as well as to transfer responsibility to the universities.

Get-togethers like this are an important way of getting acquainted with the organization of university education in the EU countries, as well as proof of mutual interest - both on the part of the EU countries and of Serbia - in reaching European standards through reform of the educational system in our country, which is a prerequisite for membership in European university organizations.

A Roundtable Organized by the G 17 Institute

European Union and Reforms in Serbia

On May 31, 2002, the G 17 Institute in cooperation with the GTZ - a German organization for technical cooperation, organized a meeting of experts on the subject **"*European Union and Reforms in Serbia*"**. The meeting was opened by ***Aleksandra Jovanovic***, Head of the G17 Institute's Institutional Reforms Department. Welcoming participants, Mrs. Jovanovic pointed out that this meeting is a part of a wider project of the G17 Institute - "Monitoring of institutional and legal reforms" financed by the GTZ.

The monitoring of institutional and legal reforms, Mrs. Jovanovic continued, is of great importance for a country in transition, a country that desires to become part of wider European integrations. One of the criteria set by the EU for future members refers to the application of whole *acquis communitaire*, which includes, apart from the harmonization of legislation, establishment of appropriate institutions, organized and financed so as to allow enforcement and implementation of the harmonized legislation.

Clear commitment to association with the EU

The main subject of this meeting is the progress of reforms with regard to our country's preparations for negotiating and signing the Stabilization and Association Agreement with the EU. Although the reformist acts pursued in our country so far clearly confirm its commitment to undertake the changes necessary for meeting conditions for accession to the EU, given the relations between Serbia and Montenegro and their legal, economic and political prerogatives, it is necessary to define certain issues in a uniform way in order to prevent the process to develop on two tracks - Serbia / Montenegro and FRY / EU.

The choice of the subject for this roundtable arose out of the importance of the current and future reformist acts for opening negotiations and for signing the Stabilization and Association Agreement, which brings about a need for evaluating current reforms and institutions which support the stabilization and association processes, together with analysis of the future strategy of accession to the EU, Mrs. Jovanovic concluded.

IMPRESSED BY UNDERTAKEN REFORMS, BUT THE ASSOCIATION PROCESS AND MEMBERSHIP IN THE EU REQUIRES A STATE

Ian William Blankert, Advisor of the EU Commission Delegation, stated that he is impressed with what has been done in our country in just one year of reforms. Mr. Blankert then pointed out the structural and long-term conditions offered to our country by the EU, which should result in EU membership.

Feasibility study by the year-end

Of the steps toward membership in the European Union, we now have the meetings of the Consultative Task Force (CTF), which is a highly technical series of meetings on technical issues related to legislation in various fields (standardization, statistics, etc). Once the European Commission estimates that we have gone far enough in that process of adjustment i.e. reforms, a Feasibility Study will be carried out, a sort of "X-ray" of a country aimed at showing whether that country is ready for opening negotiations with the EU. In principle, we only begin such a Feasibility Study if we think that in principle the answer will be yes. It is official now that somewhere by the end of the year, the European Commission will come up with such a Feasibility Study. In the next year, negotiations could be open for the Stabilization and Association Agreement. A treaty between this country and

The SAA opens the path towards the EU

the European Union will make possible the continuation of financial and technical assistance, a gradual opening up of markets - although, in fact, the EU already opened its market almost entirely for this country's products, which is more generous than was the case up to now for future candidates; further reduction of trade barriers and synchronization of laws. Once this agreement is put in place, there is a real, clear path towards membership in the European Union and this country will become *de facto* an official candidate for membership.

In conclusion, Mr. Blankert pointed to one particular problem which stands on our path towards association and membership in the EU, the fact that the FRY is one country on paper, but with two markets in practice. This is an issue we still have to deal with, but he is personally optimistic and believes that good in time everything will be sorted out.

LEGAL REFORMS ARE DEVELOPING AT AN EXCEPTIONAL SPEED

Thomas Meyer, leader of the GTZ Gmbh Project Bureau for Legal Reforms, said that he is impressed with the rate of reforms in our country, referring to both his own experience and evaluations made by EU officials.

Urgent and thorough reform of property law and corporate law

Latest legal reforms in Serbia can be partly an advantage, given the opportunity to benefit from the experience of other countries in the region (Croatia, Slovenia), although this is only partly true because of the different political situations in other countries (Bosnia and Herzegovina). Mr. Meyer especially underscored two fields of legal reforms which require urgent and thorough reform, which is property law and corporate law. These two fields are the most difficult for reforms because of political reasons and the burden of the past (social ownership, socially-owned companies). The latest modifications of the Law on Enterprises are minor and insufficient, while a serious reform of the complete legislation in this area is necessary, which is something upon which both domestic and foreign experts agree.

Mr. Meyer highlighted the problem of registering property rights to real estate and the still topical debate about keeping and maintaining of these registers. In his opinion, this issue is very significant for the functioning of the credit transactions. Despite progress with regard to the pledge on movable property, the key guarantee for credit transactions is still real estate, which is worldwide practice.

As his final remark Mr. Meyer mentioned the problematic political situation between Serbia and Montenegro, with a hope that many things will become much clearer when negotiations with the EU start.

IN VIEW OF THE UNDERTAKEN REFORMS, SERBIA HAS QUALIFIED FOR OPENING NEGOTIATIONS ON THE STABILIZATION AND ASSOCIATION AGREEMENT

Mladjan Dinkic, Governor of the National Bank of Yugoslavia evaluated the conditions, prospects, limitations and challenges which lie ahead for Serbia, Montenegro and the joint state on its path towards the EU, as well as the misconceptions related to the Belgrade Agreement on Redefinition of Relations in the Federation.

Unequal economic development in the two republics

In Governor Dinkic's opinion, given the undertaken reforms, Serbia has qualified for opening the stabilization and association process with the EU. He supported this statement with economic indicators: inflation has been halted, the dinar has become convertible in all current transactions with foreign countries, the noticeable upward trend in exports in the first four months of this year, real growth in wages, etc. At the same time, Montenegro is experiencing contrary trends: higher inflation compared with Serbia, a downward trend in exports, stagnation in wages. This points to uneven economic development in the two republics. In other important segments, as well, Serbia has established appropriate legislation and effectively met the

requirements for opening negotiations on the Stabilization and Association Agreement. (The same applies to Montenegro).

The issue of frontiers and the undefined status of the state stands as an obstacle to further progress of negotiations on stabilization and association with the EU. The actual situation is that Montenegro is an independent state: it has separate laws, a separate market and currency, while the Federal Government acts on the territory of Serbia only. The Belgrade Agreement has been created with the aim of resolving the existing problem. In Governor Dinkic's opinion, however, the interpretation of this agreement brings about several misconceptions. The main misconception refers to the opinion that one state cannot function with two different economic systems, with the consequence that there will not be any serious talks about accession of our country to the EU until this issue, i.e. the issue of a single market, has been resolved. If Serbia and Montenegro opt for a union, however loose it might be, it is clear that the Constitutional Charter will have to provide for a strong federal administration in terms of full authority for negotiations with the international community. At present, expeditious negotiations between the EU and coordinative bodies at the federal level are not possible. Another misconception refers to the relatively widespread idea widely advocated in Montenegro in particular, that two economic systems can be slowly and gradually harmonized within the process of association and stabilization with the European Union. The solution might be feasible, but Governor Dinkic believes that the European Commission is not ready to negotiate on concrete issues without the presence of a join market and joint customs.

Misconceptions in respect to the Belgrade Agreement

The Governor then pointed out the different position and interests of Serbia and Montenegro. Montenegro shows only formal and political, but not fundamental interest in resolving the current situation. The Montenegrin economy mostly exports services, and not goods, except for aluminum, which is a stock product not affected by the absence of an agreement with the EU; at the same time, Serbia needs more favorable access to the EU market and the absence of an agreement is a setback in terms of competition for Serbian economists and businessmen. Such diverse positions will bring about animosity between the two republics, resulting in peaceful political conflicts and confirmation of Serbian aspirations toward independence. Governor Dinkic illustrated this animosity with several examples: the problem of payment operations, the problem of foreign currency payments through bank accounts, difficulties in banking operations resulting form two different Bank Laws.

Different positions and interests of Serbia and Montenegro

Governor Dinkic believes that there are two ways to resolve these problems. As for the first way, one possible modality could be a non-functional union with two markets which are to be harmonized within an indefinite time frame. This modality is currently under discussion, but is affected by the aforementioned problem, i.e. Serbia is in a hurry, while Montenegro is not. The second modality would mean that the EU supports such a non-functional union and is ready to design a special negotiating model for the process of stabilization and association, which is not very likely. Consequently, as the most realistic variant within the first modality, Governor Dinkic sees the establishment of a functional union by the end of the year in order to reduce lost time to a minimum. Another modality comes about as the result of not resolving the current situation: animosity will deepen enough to strengthen independent tendencies in Serbia, also.

Toward the EU - with or without Kosovo?

Finally, in the context of this discussion, given the treatment of Kosovo as a separate economic system, Governor Dinkic finished his speech with the question to the EU representatives: would it be easier for Serbia or Serbia and Montenegro to eventually access the EU with or without Kosovo?

THE PROCESS OF REFORMS AND THE PROCESS OF GETTING CLOSER TO THE EU ARE HOSTAGE OF THE UNRESOLVED CONSTITUTIONAL STATUS OF THE COUNTRY

Maja Kovacevic, Head of the Federal Government Office for Accession to the EU, began her speech with the question why, a year and a half after

democratic changes, Yugoslavia has not opened negotiations on association with the EU yet.

Mrs. Kovacevic drew attention to the fact that Stabilization and Association Agreements are kinds of agreements designed for the five Balkan countries. Croatia and Macedonia have already signed them; Albania is negotiating the mandate for opening negotiations, while the only two countries where this issue has not been taken up yet are FR Yugoslavia and Bosnia and Herzegovina. The answer to the previous question would be the unresolved constitutional status of Yugoslavia. Without this problem, and given the political, legal and economic reforms, Yugoslavia would qualify as a country with which it is desirable and necessary to open association negotiations. Thus, it could be said that in the case of Yugoslavia and Serbia, in particular, the process of reform and the EU association process are hostages of the same paradox - unresolved constitutional issues. Both reforms and association to the EU require a clear legal and institutional framework. In the context of the Feasibility Study which provides answers to whether it is possible to open negotiations with a particular country, the answer will remain negative for as long as our country does not have functional institutions able to negotiate, to take on international obligations on behalf of the country as a whole and to guarantee fulfillment of these obligations. We are a far cry form such a solution at present. This situation is conducive to increasing frustration and uncertainty, which is very costly. Mrs. Kovacevic pointed to the misconception that unresolved political problems cost nothing; on the contrary, our relations with the EU are the best example. Except for the general Agreement, signed shortly after the democratic changes in our country, Yugoslavia does not have any bilateral agreement with the EU, which is a clear signal to the whole international community that this is a country with which it is not possible to conclude any serious bilateral agreement.

Very high price of unresolved political issues

Such a serious situation requires pressure on all political actors in the country to find efficient functional solutions and to express a clear political commitment to support and implement them; otherwise, we will face a paradoxical situation in which, despite the more than ten lost years, we are wasting precious time again, Maja Kovacevic concluded.

IF THERE ARE POLITICAL WILL AND INTEREST, NUMEROUS FLEXIBLE LEGAL SOLUTIONS FOR RESOLVING DIFFERENT SITUATIONS ARE POSSIBLE

Dusko Lopandic, Director of the Office for Relations With the EU with the Federal Ministry of Foreign Affairs, stressed that the EU association process is a measure which should contribute to improvements in the economy and the standard of living of the population. Supporting the analyses which dealt with the issue of state organization and its institutions, Mr. Lopandic underlined that, in spite of the numerous problems encountered in the former period, Yugoslavia is a member of many international and regional integrations, having signed several hundred different agreements. Furthermore, he pointed out that our country, in its relations with the EU and despite unresolved constitutional issues, is illustrating a phenomenon which proves that states are able to resolve different situations in various ways, applying flexible legal solutions. In the process of development, both internally and in relations with other countries, the European Union has shown that, with political will and interest, every situation can be resolved: for example, it took only several months for Eastern Germany to be integrated into the EU, despite estimates that it will take 5-10 years; another example is a divided Cyprus which is negotiating membership in the EU, or the Association Agreement signed by the Palestinian authorities, even though Palestine is not an independent state.

In spite of problems, solutions can be found

With regards our association process and membership prospects, Mr. Lopandic made several remarks. In his opinion, it is very important that the

whole process of getting closer to the EU be as transparent as possible, i.e. that it not be confined only to the Consultative Working Group meetings, but that it must also have a political dimension - namely, recommendations made by the Consultative Working Group and the European Commission, which are binding, must be implemented, although this is largely not the case. Transparency means inclusion of all other actors in this process because it is a social process that requires more active participation by the Parliament, non-governmental organizations, businessmen who should be provided with timely and quality information. The next remark refers to the issue of the Serbian strategy in relation to foreign countries, i.e. promotion of the Serbian new image. EU membership is a special challenge which includes activities of the state, the society, and social groups directed towards corresponding counterparts in EU countries who are supposed to accept us. Therefore, Mr. Lopandic believes that Serbia should carry out far more intensive promotional actions than it has done so far because the EU association process is a diffuse process which includes negotiations not only with the European Commission and the European Parliament, but also with all 15 member states and their parliaments, even with the parliaments of the countries which are not EU members yet. This brings us to the next remark and the issue of education. Our country participates in the TEMPUS program, as well as in several projects of scientific and technical cooperation, which indicates that, despite considerable technological stagnation of our country compared to the EU, there are some fields of cooperation, both in science and education, where we still function as good partners.

EU membership is a unique challenge

Mr. Lopandic concluded that the EU association process is a challenge both to the state and to the whole of society, and no matter how hard and complicated it could get, there is still enough space to apply institutional and legal imagination and flexibility in order to reach appropriate solutions which might be unique and peculiar at first, but are efficient in the long run.

THE ADVISING CENTER FOR LEGAL AND ECONOMIC ISSUES (SCEP) - ITS PURPOSE AND FUNCTIONING

Mihail Arandarenko, Deputy Director of the Advising Center for Legal and Economic Issues (SCEP) informed the audience about this Center and its functioning.

SCEP is a two-year project financed by the EU and is under technical management of the European Agency for Reconstruction. The Project started in October 2001 and is scheduled to last for two years, until October 2003. Mr. Arandarenko hopes that the very essence and contribution of this Center should be the signing of the Association and Stabilization Agreement by that time.

SCEP works exclusively with domestic clients, i.e. several federal and republican institutions which are of major importance for the stabilization and association process: the Cabinet of the Deputy of the Federal Prime Minister, the Federal Ministry for International Economic Relations and the Republican Ministry for International Economic Relations. The main objective of this Center is to provide these domestic clients with strategic, legal and economic advice related to the process of stabilization and association with the EU in particular, as well as in the process of joining the World Trade Organization.

Assistance to our institutions in the process of stabilization and association

The Center involves six domestic and six foreign experts - economists and lawyers. Furthermore, in order to provide timely support, the Center introduced one novelty regarding the frequently criticized sluggishness of European institutions, which is a mechanism of temporary experts for specialized fields who could be relatively expeditiously called in to offer their services on particular issues.

There are two kinds of requests placed to the Center. The first kind are strategic, long-term requests, which are often defined in the working program. Mr. Arandarenko listed several examples of this project. Creation of

Long-term and short-term requests

the Strategic Handbook that explains the structure of the key areas of the *acquis communitaire*, beginning with descriptions of the existing situation, information about the situation in the corresponding area in the EU, and finally, the offering of advice for harmonization. The next project is the design and implementation of a pattern for monitoring the progress of reforms, aimed at creating a comprehensive pattern for all significant areas of that process which, over the course and definitely at the end of the SCEP project, would be handed over to domestic clients, i.e. institutions that are still under construction. SCEP also offers legal assistance in the specific area of legal harmonization, such as the presently topical Telecommunications Law, the Arbitrage Law, supplements to the Labor Law, the Aviation Law, etc. Furthermore, SCEP assists in building up institutional capacities, such as the recent assistance to the Republican Agency for Investments and Export Promotion which was aided in creating its business plan, or to the Federal Agency for Intellectual Property, etc. Other kinds of requests are of a short-term nature and include logistical and technical support of the Center within the short-term framework. Thus, SCEP helped in the preparation of the last meeting of the Consultative Working Group, which is continuing, as well as in the preparation of comments to various law proposals, etc. Although sometimes stressful, the handling of short-term requests is nevertheless an exciting experience that shows how SCEP's work is worthwhile and enjoys the confidence of its clients, which is its main purpose, Mihail Arandarenko concluded.

STATE ADMINISTRATION IS BECOMING A NECESSARY ELEMENT AT PRESENT

Dragoljub Kavran, President of the State Administration Council, discussed the institutional aspect of accession of out country to the EU.

Saving the federation, Serbia is doing little to protect its own interests

If we want one state, then a range of functions need to remain at the federal level, but then the question is raised about the price of such a relation; on the other hand, what kind of state can be "rented" for three years, and finally, what are the consequences of such a solution. Mr. Kavran underlined that activities on the reform of state administrations are under way and are aimed at improving their speed, efficiency and rationality, but at the same time, we should not forget that an anomaly - of Serbia working on saving the federation, i.e. on entrusting its interests to the federation - does little toward satisfying some conditions of a state for joining the international community as an equal partner one day.

The federal administration consists of approximately 10,000 officials, while the republican administration employees about 15,000 persons, despite of a large disproportion in terms of tasks and policies. The State Administration Law is in preparation; this law is designed to regulate the status of state officials. An inflow of several thousand officials into the Serbian administration is expected, which raises the question of their engagement in order to make use of their expertise and experience, while at the same time, the re-education process for harmonization and synchronization with EU legislation must become universal both at the federal and republican levels. Apart from these problems and the fulfillment of existing requirements (the Copenhagen, the Mastricht, the Amsterdam criteria), a frequent appearance of new conditions and circumstances raises concern because it requires the redesign of training strategies and programs, new curriculums, re-education of people, all of which have their economic price. Therefore we must estimate our absorbent capacity for changes so as not to experience certain "stuttering" at the institutional level, which would discredit economic reforms. Everything completed so far has been carried out partly without the state administration, since it was not necessary; but at the current stage of implementation, the state administration is turning into a necessary instrument.

Rational system of public administration

It is essential to understand these processes and put them under control so as to avoid the situation of "creating duplicates, with no single state", which would neither meet EU requirements, nor would it produce a rational system of public administration in the way it should. The system of public administration has a wide freedom which ceases at the point where jeopard-

izing economic development and the rights and freedoms of citizens begins, Mr. Kavran concluded.

CONCRETE STEPS AND COMMITMENT TO REFORMS INSTEAD OF GREAT WORDS ABOUT ACCESSION TO THE EU

Miroslav Prokopijevic from the Institute for European Studies believes that the unresolved constitutional issue is of secondary importance since it will be resolved anyhow in the near future. In his opinion, it is much more important to work towards association with the EU, undertaking concrete reforms and operative steps that are both in our own interest and in the interest of integration we are tending toward, instead of talking about the EU and forecasting the time of accession. Although EU membership is a constant topic here, it is hard to believe that our country has a serious intention with regard to EU membership if it is not able to set up a customs union with neighboring countries. Therefore, it is pointless to talk about some kind of relation with the EU unless we have similar relations with, at the very least, countries in the region, if 70% of the Serbian economy is not yet privatized, if 1/4 of the Republican budget goes on subsidies, if farmers and certain production sectors are highly protected, with monopolies rampant.

To act in our own interest and in the interest of those we want to join

Mr. Prokopijevic suggested that, instead of using great words and making big promises, it is better to express our commitment to changes, starting with operative moves, especially in two directions. Firstly, in improving the rule of law which is essential for the proper outcome of economic and all other reforms; secondly, free economic and market competition and acceptance of the principle that transactions are what is important, and not the bureaucrats who approve their flow, so that regularity and satisfactory results of this competition are ensured, Mr. Prokopijevic concluded.

CUSTOMS UNION AMONG SOUTHEASTERN COUNTRIES

Jela Bacovic, Head of the Federal Ministry of International Economic Relations, the Regional Cooperation Department, with respect to regional cooperation, explained some ambiguities about the functioning of the Trade Agreement between our country and Macedonia. This Agreement was signed during the former regime, and with some changes it is still in effect today, never having been revoked. The measures undertaken by the Serbian Government that refer to the transit of petroleum and petroleum products across Serbia were under dispute, which indirectly affected enforcement of the Macedonian Agreement. Although it is far from being revoked, these measures prompted the Macedonian Government to subject some Macedonian products to the special regime through some retaliatory measures. Mrs. Bacovic believes that these problems will be sorted out in bilateral talks.

Mrs. Bacovic also stressed that, with regard to regional cooperation, the biggest progress has been made in the area of trade liberalization. The main idea of the Stability Pact for Southeastern Europe and the Memorandum signed in June 2001 is that all countries in the region should sign mutual trade liberalization agreements by the end of 2002. Although it seemed unrealistic at first, almost 70% of the agreements have been signed so far, while the remaining inter-state agreements are due in the first quarter of 2003. These agreements are only a basis for establishing a customs union between these countries, Jela Bacovic concluded.

With regard to regional cooperation, the most has been achieved in the area of trade liberalization

IT IS NECESSARY TO PUT SOME EFFORT INTO RESOLVING THE PROBLEMATIC ISSUES, NOT ONLY TO COMPLAIN ABOUT THEM

Slobodan Zecevic, professor at the Management Faculty in Belgrade underscored the issue of unresolved relations between Serbia and Montenegro as being crucial for further progress towards the EU. He raised the question of pressure which should be exerted by the EU on Montenegro so as to

The entire responsibility rests on us

ensure Montenegrin participation in establishing a joint federal state, since Serbia is not in a position to exert any influence, also raising the issue of more abundant EU financial support for Serbia.

With respect to the first question, Mr. Blankert explained that the Belgrade Agreement on Redefinition of Relations in the Federation was signed by the political leaders of Serbia and Montenegro, as well as by Xavier Solana, High EU Representative for Foreign Affairs, appearing in the capacity of mediator. It is true that the EU as a political organization expressed a wish for the federation to survive and took on the obligation of providing necessary assistance, but the Belgrade Agreement is primarily signed by Serbian and Montenegrin political leaders and we can not keep asking the EU to resolve the problem, and efforts must be made to enforce this Agreement. Although the Agreement might appear as an obstacle for further development of Serbia, at present, there are numerous reasons why the EU supports the survival of the federation, among which the most important one refers to stability in the region. In Mr. Blankert's opinion, in the long run, this agreement is beneficial for Serbia. Implementation of the agreement will not be easy, but there are numerous practical issues around which it is possible to set up cooperation, which will be necessary for this country, not only with regard to the EU, but also in the process of joining the World Trade Organization.

The Belgrade Agreement is in Serbia's interest in the long run

As far as financial assistance is concerned, Mr. Blankert did not agree with the position that Serbia is not adequately supported. Direct financial aid to Serbia allocated by the EU totals EUR 200 million per year, the amount which used to be granted to Poland, a much more developed country with a five times bigger population. Also, the money is coming through much faster than in any other country in the world. Aid from other organizations, such as the World Bank, the European Bank for Reconstruction and Development, the European Investment Bank, is coming through slower, Mr. Blankert concluded.

CONCURRENT RESOLVING OF PROBLEMS WITHOUT A WAITING PHASE

Eduard Hoffmann, a SCEP Legal Policy Adviser, believes that it is necessary to take actions towards resolving both practical and operative issues in the area of the economy, and to deal with the problem of constitution. Namely, Serbia should not be allowed to waste time in the waiting phase i.e. to hold off on resolving practical problems while others are being sorted out at some higher level. There are numerous international projects and organizations which area ready and willing to cooperate in resolving problems in the area of the economy and this should be made use of, Mr. Hoffmann concluded.

CONCLUSION

With the presence of political will and interest, optimism is realistic

During the meeting, the participants shared several common opinions. Firstly, their open admiration for the speed of reforms in Serbia, especially on the part of representatives of the EU and international organizations. Secondly, consent among nearly all participants that the unresolved constitutional problem stands as one of the major obstacles both for further reforms, as well as for the process of stabilization and association. But we could also hear some optimistic views, equally expressed by domestic and foreign participants, that if there is political will and interest, flexible legal and institutional solutions could always be found for problematic situations, since the development of the EU itself is the best example of this.

At the conclusion of the meeting, Aleksandra Jovanovic stressed that the G17 Institute organized this roundtable with the intention of helping in the definition of a consistent system of reforms and their monitoring. Namely, this gathering should contribute to defining the policies necessary for signing the Stabilization and Association Agreement, and for making the subsequent strategy for preparing the country for accession to the EU.

Prepared by
Dejan Gajic

A Roundtable Organized by the G 17 Institute

Investments in Serbia - Opportunities and Obstacles

On May 28, 2002 the G17 Institute held a roundtable discussion ***"Investments in Serbia - Opportunities and Obstacles".*** Many eminent Yugoslav economists and interested foreign investors took part in the roundtable discussion, including representatives of state institutions.

PRIVATIZATION SHOULD BE A CATALYST FOR THE FOREIGN INVESTMENTS INFLOW

Opening the roundtable, ***Ivan Vujacic***, Professor at the Faculty of Economics, University of Belgrade, explained that the subject of this gathering is investments. Hence the introductory part was reserved for the presentation of the G 17 Institute's studies which surveyed the obstacles that stand in the way of investments, with the case of mobile telephony as a key resource of a country in modern times and an investment map of Serbia which, among other things, highlights the experiences of countries that have already undergone the process of transition.

Professor Vujacic pointed out that there are several obstacles that foreign or domestic investors face when making decisions on investing in one country. The first one refers to the degree of non-commercial risk, largely dependant on political stability in one country. In his opinion our country is unfortunately in an unfavorable position in that respect, not only in terms of internal circumstances in Serbia and Montenegro, but also in terms of the agreement on redefinition of relations between these two republics that is largely undefined when it comes to economic relations. Another serious obstacle to investments is corruption. A new system of laws that are to be adopted should seriously curb corruption.

In Professor Vujacic's view, privatization in our country should be a catalyst for the influx of foreign investments because of the privatization model which is applied. At the same time, foreign investments require a wide range of institutions and legislative solutions, as well as lower credit risks. All these circumstances are correlated. Any scandal or problem in public procurements or the privatization process or stock exchange auctions in the case of sale of enterprises would be a very bad sign for future foreign investors. Ultimately, Professor Vujacic said that investments will stimulate development of institutions, strengthen the legal system and affect reduction of non-commercial risk in our country.

LEGAL ENVIRONMENT AS A CRITICAL FACTOR THAT NEEDS IMPROVEMENT

Goran Petkovic, Professor at the Faculty of Economics, Belgrade presented the results of the survey conducted by the G17 Institute under the name of "Cost of doing business in Serbia". The researchers conducting this survey put a huge effort in entering 500 companies in Serbia and establishing, by the method of random sampling and the representative sample, firstly what are considered major barriers in these companies, and secondly, what are operating costs in Serbia. The study itself is divided in four main parts. The first part includes introductory notes on methodology. Part Two is the central part of the study and presents thirteen key areas in which the control of costs and of barriers is directly caused by actions and lack there of on the part of state officials in Serbia. First, legal regulations in each of these thirteen areas were examined, followed by the presentation of results of the survey. These results show the costs and barriers expressed in time units (days and worker/days) spent in particular activities linked to the registration of a company, the obtaining of a work permit or work premises, etc. The third part of the study gives a general overview of the impact of particular factors on the economy in Serbia. The fourth part is a hypothetical example in which, in the case of one small trading company and one small production company, operating costs in 2000 are estimated.

In Professor Petkovic's opinion, one of the tasks of this gathering was an attempt to establish priorities and help state officials in resolving problems in the aforementioned areas. First of all, it is necessary to define priorities for which the last part of the study could be useful, since it gives average grades to some of the most significant factors of the study. All these grades are low, especially with respect to efficiency of state officials, the stability of the legal system and a sense for business among state officials. Non-commercial risks are also evaluated with low grades, while the best grades were given to the influence of foreign institutions and foreign competition on the domestic market. In general, Professor Petkovic explained, businessmen were in favor of a market and competition. Out of fifteen influential factors, according to the results of factor analysis, critical factors were drawn. It turned out that the legal environment is a critical factor that must be improved in order to lower operat-

ing costs and barriers. The legal environment encompasses all other significant downside factors.

Professor Petkovic underlined the issue of what should be done in order to reduce costs of doing business and explained that indirect state influence should be pursued first. In that sense the most important issue is to improve the sense for business among state officials. This requires persistent activities so as to eradicate the red tape syndrome. There is also much to be done with regard to the legal environment, efficiency of the state administration and simplification of the procedure for registering enterprises. It is especially important to see what institutions are mostly in charge of this and whether these institutions need to be changed as well. The next key area is improvement in the procedure of obtaining work premises. According to the survey, this is the longest and probably the most complicated procedure. In order to attract investments, Professor Petkovic stressed that this procedure must be simplified. The state's sense of business should be improved through improvement of the tax system. Transparency in the tax system has been improved, but collection of taxes is still not efficient enough, while the tax burden is too high. A way must be found for these two factors to break free from the vicious circle in which they are caught up. Special attention must be paid to the area of inspection. There are too many inspections operating on our market, their number is even growing, but with no increase in efficiency of their work. The G 17 Institute survey shows that many of these inspections have poor human resources, weak performance and a small number of visits, while too many of them merely pay visits to companies in order to distract employees. This must change through reorganization of inspection services.

In conclusion, Professor Petkovic expressed his hope that the Institute will have a possibility to repeat this survey and monitor improvements in the business environment in our economy by the method of comparative statistics from one period to another.

FOREIGN DIRECT INVESTMENTS HAVE HAD A GREAT INFLUENCE ON ALL COUNTRIES IN TRANSITION

Milko Stimac, the G 17 Institute CEO presented the study "Investment Map of Serbia". This study follows the previous one in a way that it should show where investors should operate and in what way. This study is based on the comparative analysis of experiences in other countries in transition, since the main comparative advantage of our country, as Mr. Stimac underlined, is that we entered the transition last.

The Study shows that foreign direct investments have had a great influence on all countries in transition. The Study begins with a division of investments into strategic and financial. Strategic investors are those who come from the same industry as the company they are taking over, while financial investors are those who take over a company with the aim of gaining profit either in the form of dividends or as capital gain. This division is much more important than the one into foreign and domestic investors, since all investments must be subject to the same treatment. The final conclusion of the Study is that, apart from particular activities in the area of infrastructure, there are no strict rules whether a particular industry or a specific enterprise is better privatized by a strategic or a portfolio investor. Accordingly, there are no general conclusions applicable in each individual case.

Some guidelines, however, have been drawn. Our Law on Privatization favors strategic investors and with regard to privatization itself, it is a better model than mass voucher privatization. But Mr. Stimac drew attention to two dangers that should be kept in mind with regard to strategic investors. Firstly, in some industries, strategic investors buy the market, not the company. There is a danger that some parts of a particular company will be closed. This problem can be sorted out through different strategies from case to case, i.e. through contracts on taking over companies. Secondly, there is a danger of monopolies on the market. This may be resolved in such a way that at least three strategic investors are allowed to operate within one industry. The sale of cement factories was a good example of such a strategy. Financial investors also bring some risks; markets in countries in transition are shallow, liable to practices otherwise illegal in developed markets (all kinds of market manipulations aimed at achieving capital gain). This could be resolved relatively easily through the establishment of strong institutions on the financial market through which all activities in the privatization process and the subsequent trade in securities would take place.

The Study in question presents experiences of other countries in transition, according to sectors. So far energy systems have attracted strategic investors in countries in transition, but this sector has not been sufficiently attractive for foreign investors because of the size of investment necessary for this industry to become functional, as well as because of the public opposition. This has largely been the case with mining and metallurgy. Before selling these enterprises to strategic investors, the state should initiate a process of restructuring and divide these giants into units that are more attractive for privatization. Cooperation between Sartid and US Steel confirms that positive steps can be made in this direction. Chemical and petrochemical industries have had positive experiences, both with strategic and financial investors. There are also positive examples with the sale of companies for oil and gas refining, both to strategic partners, as was the case in the Slovak Republic and Bulgaria, and to financial investors (Hungarian MOL). As regards pharmaceutical products and the food industry, much better experience has been observed in the sale to portfolio investors. The most significant difference between privatization through strategic and portfolio investors appears here. A classic example is relation between Danone and the Hungarian diary industry. This was an example of sale of the market, not of a particular company. In the machine and electrical industries there are positive examples of both strategic and financial investments. However, in most cases in the sector of electronics, domestic firms went bankrupt, while

foreign investments largely appeared in the form of Greenfield investments. The automotive industry and the manufacture of trucks has largely attracted strategic investors in countries in transition, with the most positive example in this regard being Skoda. This industry generated the largest inflow of foreign direct investments in countries in transition and today it still yields the most positive results, both in terms of foreign trade and in terms of GDP growth. Manufacturing of textiles, garments, leather and footwear also offers several positive examples of sale to strategic and financial investors. There is little risk in this industry that foreign investors will buy the market because the degree of market penetration by domestic manufacturers in countries in transition is decreasing in favor of the gray market. Public utilities in all countries in transition were in very bad condition and wherever they managed to recover and restructure, that happened with the assistance of foreign investors, who were the only ones interested in investing in this area, Mr. Stimac concluded.

PRICE BARRIERS ARE THE MAIN OBSTACLES TO MORE EXTENSIVE USE OF MOBILE TELEPHONES

The Case Study "The Third Mobile Phone Operator - Examples From Selected Countries and Results of Market Research on Entry of the Third Operator" was presented by ***Bojan Zecevic***, the G 17 PLUS CEO. This research, conducted by the G 17 Institute at the beginning of this year consists of two parts. Part One describes the past and present situations in countries in transition and in developed European countries. Part Two shows the attitudes of citizens of Serbia towards the entry of a third mobile operator.

The research covered a relatively large sample; in 66 towns 2200 questionnaires were released, 2105 returned, and out of this number 1896 questioners were deemed valid for analytical processing. The study was not focused on the number of subscribers, which is around 2.2 million today, but on the number of users. 54% of respondents confirmed use of a mobile telephone. This suggests that many potential owners of mobile phones use the same device / number in a household or the company phone. Among non-users, it was interesting to examine how much they would be ready to pay if they used a mobile telephone. Respondents declared that they are ready to pay less for the price of a device than what it regularly costs, as well as for the subscribers' number, but as much as is necessary for impulse expenses. Mr. Zecevic concluded that over 50% of non-users explained that they do not own a mobile telephone because of price barriers. They were asked whether they would like to change their current status. 17% of the respondents declared their intention to purchase a mobile telephone and a subscribers' number in the course of this year, while the rest plan to do so in the next two years, which indicates a huge potential for increases in market penetration. With regard to the respondents' opinions of the present operators, the general attitude is that Mobtel is better, but as much as 27% of the respondents believe that both operators have some kind of joint arrangement. In response to the question "What needs to be done with the current functioning of mobile telephony?", over 80% of respondents answered that it is very important to reduce prices; about 2/3 of the respondents asked for a wider choice of tariff packages, the same percentage is interested in purchasing a telephone device in a lease package (which can be a way for overcoming one price barrier). In the following questions, the respondents evaluated the existing operators, together with one imagined "ideal" operator. Grades below five (the highest) for the ideal operator, Mr. Zecevic explained, point out the smaller importance of particular services. Respondents marked the following as the less important services: promotional activities of the operator, Internet access and a broad range of offered services. The largest discrepancy between the ideal and existing operators is present with regard to indoor reception, ease with which a number can be obtained and modern technologies. The results of the research with respect to the respondents' expectations from the entry of a third operator are the following: 77% believe that the third operator's entry will affect reduction in prices, 74% expect easier communication, 71% expect increase in professionalism, while 78% of respondents expect a positive influence on operations of the existing operators. Respondents also answered that they find this sector interesting for employment - 50% would be ready to work in this sector, while this percentage is even higher among students - 62%. In conclusion, Mr. Zecevic underscored respondents' opinions on why, in spite of numerous announcements, nothing happened in the previous three years with regard to the entry of a third operator. As much as 37% of respondents claim that entrance has been deliberately stalled because of somebody's interests (9.2% even think that someone ought to be summoned). This indicates a potential risk for one purely economic subject to be perceived as political by citizens. This could have a negative impact on the continuation of reforms.

EXTERNAL CONDITIONS FOR THE ENTRY OF FOREIGN INVESTORS EXIST, THE PROBLEM ARE INTERNAL CONDITIONS

The discussion which followed the introductory speeches was opened by ***Stojan Stamenkovic***, Associate with the Institute of Economic Sciences. Mr. Stamenkovic highlighted some macroeconomic indicators in Serbia. Fixed gross investments accounted for 13.12% of the gross domestic product in the Serbian economy at the end of 2001. A share of fixed investments in developed countries such as Germany is approximately 20%, while in successful transition countries (those in the first circle for accession to the EU) it ranges between 25% and 29%, and in unsuccessful countries it is at the level of 16-17%. Investment balance for the year 2002 indicates negative domestic savings. Therefore, external resources

(FDI, credits and even donations) are intended to cover both negative savings and the amount necessary for reaching an acceptable level of investments in the GDP.

Mr. Stamenkovic underscored that sorting out our relations with creditors and a three-year arrangement with the IMF provides our country with all external conditions for the entry of foreign investors. But the problem exists with internal conditions in terms of obstacles for development of business and political instability. If an election were held, we would have to deal with that and with the establishment of new authorities, while foreign investors would wait to see the outcome, and the whole timing of the three-year IMF arrangement would be put at risk.

Mr. Stamenkovic agreed that foreign investors often tend to buy the market, but our country also tends to sell that market. A monopoly on petroleum was introduced allegedly in order to provide fiscal revenues until appropriate institutions were built up, with claims that this will last for a short time. Owing to this monopoly, however, Macedonia suspended a free trade agreement with our country, while potential buyers of Beopetrol, the major ace in privatization, are hesitating. Instead of canceling that Decree, the Minister offered investors to rent a part of the NIS capacities. At first glance, the monopoly on petroleum seems rather pragmatic; the state gains higher profit and NIS will achieve a better selling price if there is a monopoly. But this has a negative impact on development, giving unreliable and wrong developmental signals because once when it had to be canceled due to the EU regulations, a monopolistic enterprise would not be able to sustain competition.

Taking into consideration all the results of the study on the entry of a third mobile operator, Mr. Stamenkovic said that in his opinion the question of entry of the third mobile operator is not a serious one under the situation of a monopoly on fixed telephony. This monopoly is scheduled to last until 2005, which is contrary to EU legislation. Neither can Internet be used properly with fix telephony in its current condition. As long as this situation with fixed telephony continues, we should not be overenthusiastic over revolutionary introduction of the Internet and information technologies. Mr. Stamenkovic concluded that it appears that our country has a wrong sense of business not only at a micro level, but at macro level, also.

ECONOMIC POLICY IS ALLOCATED MORE TOWARDS RESOLVING COLOSSAL MACROECONOMIC PROBLEMS, WHILE MICROECONOMICS IS LARGELY NEGLECTED

Milan Kovacevic is another participant who expressed his disagreement with the view that political events are a source of uncertainty. In his opinion, our country is not in an uncertain position, but has started to progress finally. Nevertheless, all of us must pay attention to the functioning of our Parliament, our Government and President, and send a clear massage to the world. He also opposes the statement of negative savings, considering that a specific characteristic of our country is that savings are concentrated in the black market.

In his opinion, investments must come through simultaneously with privatization. Some incentives incorporated in our current law are flawed. The favoring of sale of capital over recapitalization is one such example, where state officials are more inclined towards collecting budgetary assets. In general, with assistance from the international community, our country has been more concentrated on sorting out colossal macroeconomic problems, while microeconomic issues have been largely neglected. Equities from privatization carried out so far should appear on the stock exchange as soon as possible, while the current privatization concept, which has preserved the old self-management way of existence of an enterprise must be changed in order to attract real investors to invest in an enterprise. The obstacle for this is the stock exchange monopoly on trade in equities. In Mr. Kovacevic's opinion, we must find as soon as possible a more functional, simpler and cheaper way of trading in existing equities.

In some good enterprises which are currently undergoing difficulties and which have recently been privatized, about 40% of capital is held in funds. It is wrong for funds to hurry with the sale of this capital, especially before recapitalization of these enterprises. These enterprises need capital as a substitute for costly sources of financing in today's market, such as commercial bills on the Belgrade Stock Exchange. Therefore, legislation should encourage recapitalization.

As for mobile telephony, Mr. Kovacevic thinks it is wrong to discuss the third mobile operator since we do not have even two providers on the market at present. Namely, the two existing operators do not operate under the same market conditions; they are only technically two providers. Before a third operator is introduced, we must establish two market operators with the same access to fix telephony and with same fees. This would provide healthy competition in the mobile telephony.

Mr. Kovacevic also pointed out previous privatizations which, in his opinion, unfortunately served for establishing monopolies. Our country badly needs financial investors, simply because there are more financial than strategic investors in the world. Financial investors would have a beneficial impact on the development of a financial market in our country, which would enable us not to struggle with our ruined banking sector and its uncertain prospects of recovery. In the financial market, depositors will be able to buy shares and invest in enterprises, directly buying securities and thus investing their savings in a much more efficient way than is possible with saving accounts.

PRIVATIZATION IS A NECESSARY, BUT NOT THE ONLY CONDITION FOR AN EFFICIENT ECONOMY

Ljubomir Madzar, Dean of BK University, praised the survey on the cost of doing business in Serbia, stressing that it shows the deficit of political will to encourage private busi-

ness and development of the economy. It is not easy to create conditions for a market economy; privatization is a necessary, but not the only condition for high efficiency. Among other things, it entails an active and positively directed state policy towards private business. In Professor Madzar's opinion, this study is very useful in the sense that it is necessary to examine the states' relation toward incentives for the private sector and for strengthening market oriented processes.

It is important to create conditions for opening new companies and for starting private business. Some of these conditions require money, time and know-how, while others entail only political will for improvement: e.g. too many counters and desks disseminated all around town. It is necessary to press the state harder to provide these conditions, because this can improve the economic situation considerably without any investments. Our country is still too concerned with employees, the unemployed, the socially vulnerable, and is thus neglecting groups relevant for development, such as entrepreneurs, investors, depositors. In Professor Madzar's opinion, there was a way which could have contributed to faster establishment of credibility among depositors for banks, without any illicit fiscal implications. This would have restored confidence and the situation where citizens take out their savings from mattresses, convert them into euro and put them back into mattresses once again would have been avoided.

Professor Madzar considers it dangerous that the state authorities criticize courts, as has frequently been the case. Our courts are not ideal, but it is better to have imperfect courts, than no courts at all. The energy of a society should not be directed toward belittling the courts, but toward strengthening both the judicial system and awareness that court rulings must be obeyed.

One of the most important priorities is acceleration of trade in equities. Trade in equities creates conditions for growth in income and welfare. The stock exchange should operate so as not to prevent shares from being traded over the counter. "Over the counter" trade in shares will have to develop in our country as well, Professor Madzar concluded.

MARKET SHOULD BE OPENED FOR LARGE NUMBER OF COMPETITORS AND CONDITIONS CREATED FOR PRIVATE INVESTMENTS

Miroslav Prokopijevic, Associate with the Institute for European Studies agreed that favoring privatization through sale to strategic investors is not good because if we sell an enterprise and corresponding markets to strategic investor, a huge rent will be created. In order to reduce a rent, we must open the market for a large number of competitors. In Mr. Prokopijevic's opinion, however, the main problem would still not be resolved, since foreign investors continue to use our country only as a market, without allocating investments. In order to resolve this problem, it is necessary to create conditions for private investments.

The Study "Cost of Doing Business in Serbia" highlighted the problem as a whole. Mr. Prokopijevic thinks that if there is a force which could create conditions conducive to private business, its first opponents would be state officials. Namely, without a complicated bureaucratic procedure, they would lose considerable income. If the state authorities are not able to tackle corruption at a local level, everything else that could be done is of minor significance compared to this problem. There is no successful country in the world without an environment that is conducive to foreign investments. The problem in our country is that huge rents of politicians at high levels and red tape at lower levels are prioritized over the interests of the vast majority of the population.

Consequently, a key element in the transition process is a new private sector which is to emerge only if conditions are created for foreign investors to come, despite suggestions offered by the US State Secretary. Serbian authorities are focused on the problem that could be called, in Mr. Prokopijevic's opinion, systematic legalized corruption through privatization. Namely, the Government corrupts local communities through 5% of privatized revenues; it corrupts employees, giving them a portion of shares; it corrupts politicians through privatization revenues that fill the budget; it corrupts managers who will be allowed to participate in privatization or even to buy whole companies. Mr. Prokopijevic concluded that such focus is completely wrong and needs to be directed in completely different direction.

IN ORDER TO ATTRACT FOREIGN INVESTORS, SERBIA HAS TO PRESENT ITS ADVANTAGES IN A MORE ATTRACTIVE WAY

Milan Jankovic, President of the Belgrade Chamber of Commerce and President of the Board of the PIO Fund of Serbia, agreed that we have not made much progress in attracting foreign investors, but not because of lack of attractiveness, but because we have not presented our advantages in an attractive way.

In his opinion, we should concentrate on domestic resources. The structure of foreign currency converted into euro should be examined because it is obvious that assets for investing exist, but that those who own these assets must be stimulated to invest, because they are still reluctant to do so.

Mr. Jankovic repeated criticism of the monopoly on petroleum and said that considerable revenues were collected for the state budget owing to this Decree. Thus, in the first month (April) when the state took over the monopoly, the inflow into the PIO Fund budget was YuD 1.46 billion.

THE PROBLEM OF STATE OWNED ENTERPRISES MUST BE RESOLVED AS SOON AS POSSIBLE

Aleksandar Denda, with the Balkan Investment & Development Company, gave a short overview of the current state of affairs in the Serbian economy. Mr. Denda highlighted the conditions of living and doing business in Serbia today. The level of economic inefficiency is growing in all sectors; the value of imports is three times higher than of imports, industrial production is dropping, unemployment is increasing. There is also a high share of expenses of the state in the business activities of enterprises: 50% of the budget is spent on public procurements and services, excluding personal income of administrative staff, making state and public enterprises the biggest investors in the country, which at the same time constitutes a huge fiscal burden. The capital in socially-owned enterprises is immobilized, causing negative profitability in the Serbian economy, whereas the private sector is not allowed to neutralize that negative impact. Therefore, in order to do something, the problem of state-owned enterprises must be resolved as soon as possible in order to make these enterprises attractive for sale or to simply close them down.

Present conditions are not favorable for SME development. When an entrepreneur observes some business opportunity he/she must seize it instantly, because the opportunity does not last forever. But it takes as much as two years to obtain all necessary licenses and permits, to build facilities and start doing business. This is not a congenial environment either for domestic or for foreign enterprises, Mr. Denda stresses.

Legislative and constitutional aspects are unfavorable also, because we still do not know in what country we will live in the near future.

A special problem refers to the state administration, to public services and to institutions with public authority. All of these have been created to correspond to social ownership and the concept of an agreed economy. Hence, such institutions are not able to recognize an entrepreneur. Not to mention issuance of various resolutions, certificates, licenses, etc.

In Mr. Denda's opinion education is a key issue. The mindset of our people must change, because many behave as if we are still living in an agreed, self-managed socialist economy and lay claims to things that do not belong to them. Therefore, it is very important to influence a change of mind-set through education and information which will result in a change of behavior in the future.

Financial reports have been created just for literary purposes, unrealistically, and until recently this has been an enormous problem. Consequently, today, when an enterprise wants to enter into legal operations, it cannot obtain a loan from the bank because of a lack of essential papers. Mr. Denda pointed out that we have not had a real financial system in earlier times, either. It could be said that we only had a bad banking sector; while other institutions within that system either did not exist or are not worth mentioning. Financial and banking sectors lack experience, especially with regard to assessment and monitoring of the performance of an enterprise, with a result that financing of SME's is considered too risky. The lack of a monitoring system means that only highly insured short-term loans are approved.

On the other hand, there are numerous constrains within SME's themselves: their undercapitalization, legal limits for securing loans and lack of any comprehensive information about the turbulent market trends which aggravates creation of business plans. Today there are 53,000 active SME's in Serbia, plus 207 thousand craft shops. They do not have a significant role in creating new employment opportunities. Also, there is no significant transformation from small to medium, or from medium to big enterprises. Over the last 12 years, only 872 out of 50,000 small private enterprises transformed into medium ones, while 130 medium enterprises developed into big ones. It is estimated that as little as EUR 10 million was allocated for SME development from aboard, while three countries in the region were allocated EUR 500 million for that purpose. For example, Belgrade and Ljubljana have the same number of craft shops while Belgrade is five times bigger than Ljubljana.

In conclusion, Mr. Denda suggested several measures for resolving aforementioned problems: full deregulation and liberalization with regard to the opening of SME's; new legislation on registered security of loans, public procurement, leasing, investment funds; abolition of double tariffs for telephone and postal services and electricity for legal entities, as well as double road fees and accommodation prices on hotels for foreigners; permitting a 70% cut on contributions for wages in the first two years of one SME, followed by a 50% cut in the subsequent two years; reduction in taxes and simplification of the procedure for obtaining particular licenses; establishment of a new concept of a chambers of commerce; changes in the educational system; setting up of new financial institutions - funds of initial capital, guaranteed funds, investment funds, etc.

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The growing pains of a new financial market such as the financial market in our country were discussed by brokers who operate on the Belgrade Stock Exchange.

EXPLICIT PROCEDURES FOR TRADING ON THE BELGRADE STOCK EXCHANGE MUST BE ESTABLISHED

At the outset, ***Dragijana Radonjic Petrovic***, from the brokerage house M&V Investments, acquainted the audience with the controversial sale of 4.4% of shares of Apatinska pivara, which was bought by Salford. She explained that the price of 24,000 as the first bid was

annulled by the stock exchange which considered it too high because it was eight times higher than the reassessed value. The second bidding was scheduled only one hour later and Salford fetched the price of 1.350, which was accepted, although this second auction in Mrs. Radonjic's opinion was not entered regularly.

Mrs. Radonjic stressed that the problem did not rest with Salford; it is good to have Salford on the stock exchange in Serbia. She hopes that other investment funds will come here too. The problem concerns the Stock Exchange and its trading system. It is necessary to set a procedure so as to avoid mistakes and to continue trading according to explicit rules.

PRIVATIZATION AIMS NOT ONLY AT CHANGING OWNERSHIP, BUT ALSO AT CHANGING THE PEOPLE'S MINDSET

Rade Rakocevic, from the brokerage house Senzal perceives investing in securities and operating on the Belgrade Stock Exchange as very significant problems in Serbia. Problems largely derive from a lack of vision for capital market development. There is no clear intention to educate the citizens of Serbia on what a stock exchange is, what are equities, how they are traded on the stock exchange, etc. It is important to educate citizens. Privatization aims not only at changing ownership structures, but also at changing the citizens' mindset with respect to economic subjects.

Mr. Rakocevic agreed that a stock exchange should have some kind of competition; hence, over the counter trading should be allowed, but this is not the right moment for that. There cannot be over the counter trading with as yet undeveloped stock exchange trading; we cannot build a new stock exchange while the existing one does not yet function properly. Mr. Rakocevic suggested that trade in shares on the Belgrade Stock Exchange be frozen for three to six months until procedures are defined and institutions created, i.e. a central register, a clearing house, etc. Investors do not know what their liabilities are, where they are supposed to keep money; brokers do not know what to do, how to check if an investor is a good investor or not. Everything should be much easier once the Law on Money Laundering comes into effect, Mr. Rakocevic concluded.

THE STATE SHOULD FACILITATE BUSINESS OPERSTIONS, NOT PROTECT AND GUIDE THEM

Jack Barbanel, Chief Investment Officer of the Salford Investment Fund explained that this Investment Fund came to Serbia to invest US$ 100 million, but it faces great difficulties which raises the question whether there is a political will in Serbia for foreign investments, as well as whether it is clearly understood what investments are all about.

As far as the cost of doing business in Serbia is concerned, Mr. Barbanel explained that there are three kinds of costs. Firstly, the cost of an investor who spends much money, time and energy to get to know investment opportunities in this country. This is followed by the cost of the Government since it is unable to stimulate the economy, collect taxes and develop the country up to the level of international competitiveness all at once. Finally, there are the costs of the population as the most significant problem, since the population's standard of living is dropping.

Other countries in transition have made numerous mistakes and a positive circumstance in the case of Serbia is that this country can benefit from the experience of others. However, Mr. Barbanel is of the opinion that not enough attention is being paid to the mistakes made by others. He warned that one's own negative experiences are precious, but at the same time overly expensive and not necessary.

Investors are needed, whether strategic or financial, because real money is the blood of an economy. No money - no possibility for growth and development.

The most important factor is development of small and medium enterprises. The development of these enterprises is linked to the environment with already developed big enterprises. This is an evolutionary process; those who have worked in big enterprises start new, small businesses which grow to become big. Both Microsoft and General Motors used to be small enterprises once, and the first investors in Microsoft were not strategic investors, but individuals who were ready to take a risk and invest their assets.

In Mr. Barbanel's opinion, the problem with privatization in Serbia is its inefficiency. The state plays a patriarchal role in that process, acting as if it knows better than the shareholders. It is not a free market economy, but the state must trust its own people. The state's role is to facilitate business operations and to enable economic growth - not to guide and protect it. Only this mechanism can bring credibility and attract money. This means that the state should not interfere in the market, into shareholders' rights, administrative boards and the management of companies. These people are mature enough to make decisions on who is to be their future partner. This principle is not acceptable in a political and economic sense anywhere in the world, except in countries that face transitional problems or those under dictatorship, which is what this country should try to avoid, Mr. Barbanel suggested.

Mr. Barbanel further explained that the investment fund Salford has come to Serbia because it believes in Serbian opportunities. In spite of wars and sanctions, people remained people and Serbia has at its disposal excellent knowledge, education, consciousness, a strategic position in the region and is working on establishing a free trade area with all neighboring countries. Furthermore, there is an agreement on free trade with Russia, which is a market of 148-million people. Therefore, it is better in Mr. Barbanel's opinion for Serbia to focus on Russia than on the EU, simply because Serbia exports food, for which the EU market is rather restrictive, while Russia on the other hand needs those kinds of products.

Salford is accordingly an instrument in the privatization process. They want to take an economic and political risk and build up good companies that would help the Serbian economy

and people, and produce profit for their shareholders, not through buying cheap and selling expensive, but through building long-term values. It is not a secret that this investment fund plans to start a big company for manufacturing of food and beverages here, which would become the first or second in importance in CEE. They have chosen Serbia because they believe in the potential of Serbian enterprises and are ready to invest abundantly to achieve this. Their objective is to make existing companies better, to help them develop their own brands, to educate managers and to appear on foreign stock exchanges.

Mr. Barbanel agreed with the results of the G 17 Institute survey that there cannot be any generalization on whether one investor is better than another. Each strategic or financial investor has their own policy, but in his opinion, for the companies which deal with the manufacture of food and beverages, financial investors are a better choice because they do not buy the market, but the company. Hence, they are needed by industries and enterprises that want to develop, that need money for investing, for export growth and for establishing a competitive position on the market.

Mr. Barbanel touched the subject of the Belgrade Stock Exchange and its business transactions, stressing that the investment fund Salford was also shocked with the lack of rules and institutions. There are many investors who would invest in companies in Serbia, but there are many obstacles, all of which create significant risks in stock exchange transactions. Therefore, better institutions and better rules are of great importance. Basic instruments that make stock exchange transactions clear and transparent do not exist here.

When a financial market is being built, it is desirable that it not be over-regulated, because this complicates business transactions, but at the same time not under-regulated, because this could result in a loss of credibility. However, the experience of the stock exchange in Poland, the most developed country in this part of the world, showed that in countries in transition which face great political risks and instability, it is better that the market is over regulated at the beginning and than, gradually, as people are getting to know the market, to ease the constraints. Mr. Barbanel recommends the creation of over-regulated institutions, but with explicit and transparent rules.

He explained the importance of being earnest in the development of financial markets in that the banking system and capital markets are two financial institutions acting as crucial pillars of every economy. If they are flawed and not developed, no country can be financially successful. In Serbia, in particular, it is not only important to work on establishing institutions, but also on educating the widest possible segments of the population, including the state, funds, etc.

THE SALE OF MOBTEL IS A SHORT-TERM SOLUTION, WHILE THE ENTRY OF A THIRD MOBILE OPERATOR IS A LONG-TERM SOLUTION

Eric Baldwin, from the telecommunications company TIW, Canada, presented his company which was the first mobile operator in Romania and presently operates as one of the biggest companies in that country, while in the Czech Republic it entered as the third operator.

They have been present in Serbia for a year and a half because they believe that they have interest in investing if there is a bid for a third mobile operator. Namely, Serbia will have a monopoly in the filed of fixed telephony until year 2005, the network is at the brink of capacity, it takes a long period of time to obtain a telephone line, and all this is expensive. As for the mobile telephony market, there is a duopoly with crossed ownership, which results in high prices of both fixed and mobile telephone services.

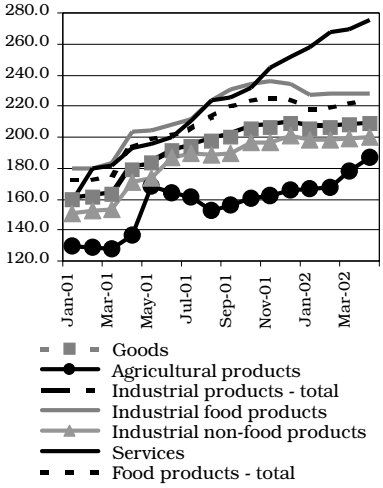
It is true that the present authorities inherited appalling conditions from the previous regime. What the state should do is to resolve ownership relations in Mobtel and sell its shares. But Mr. Baldwin does not believe that this will occur this year, and the Government will not get the budgetary injection which it needs. However, even if this does happen, the buyer will probably insist that the third operator not be introduced for some time, so as to strengthen his/her own position on the market. This will postpone introduction of necessary competition. What will probably happen is that there will be an operator who is strong, and Telecom Serbia will not be able to compete; consequently, one player will dominate the market.

Furthermore, the question is at what price Mobtel can be sold. Many telecommunications companies have lost their value in the course of this year. They would probably not pay much for Mobtel either. In Mr. Baldwin's opinion, the sale of Mobtel is a short-term solution, while the entry of the third operator is a long-term solution.

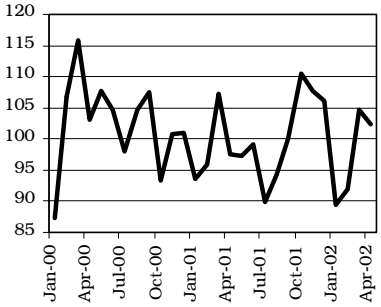
• • •

In his closing speech, Mr. Stimac summed up the conclusions of the round table discussion into three points. Firstly, where Greenfield investments are concerned, the key word is deregulation. Secondly, quality strategic investments entail the same conditions as Greenfield investments. Finally, in spite of different comments, in his opinion it can be concluded that portfolio investments require further institutionalization of financial markets, but not monopolization. Competition between institutions is necessary, but competition between institutionalized and non-institutionalized markets should not be allowed, because over the counter transactions are regulated in the same way and to the same extent regulated as stock exchange transactions, Mr. Stimac concluded.

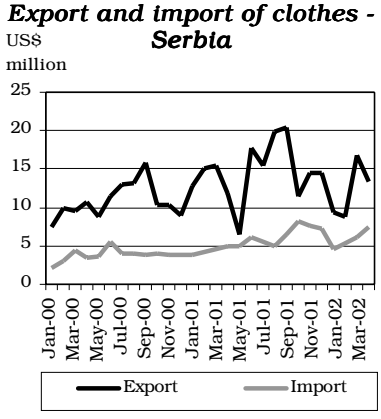
Retail prices index - Serbia (average 2000 = 100)



Industrial production index Serbia (average 2000 = 100)



Export and import of clothes - Serbia



G 17 Institut, 11000 Belgrade
10 Knez Mihailova, Yugoslavia
381 11 33 46 086, 33 46 172
http://www.g17institut.co.yu

Prices

Retail prices in Serbia in April increased 0.9% on average, while consumer prices were up by 0.6% month-on-month. Retail prices growth in April mostly resulted from increase in price of agricultural products and price of services. Industrial products in April rose by 0.2% on average owing to the faster growth in the group of industrial non-food products. Price of services continued to grow at faster pace than price of goods in April. All the indicators show that, after the last year deceleration, inflation continued to move at slower pace in the year 2002, as well. If prices continue to grow at such dynamics, the total year-end inflation could be less than the projected 20%. Relative to the average growth rates in the two previous months, costs of living in April were significantly lower.

Wages and pensions

The average net wage in Serbia in April was YuD 8.739, which is nominally up 6.5% month-to-month. Cost-of-living index increased by 0.6%, while the average real wage recorded a growth by 5.9%. Nominal net wage in economy in April averaged YuD 8.364 and in non-economic activities YuD 9.895, whereby real wages in both economic and non-economic activities recorded the same growth. Consumer basket in April was valued at YuD 10.930, while the ratio of consumer basket to the average net wage was 1.3. Averaged pension paid out in April was YuD 5.988, which is the same as in January. The average pension was down by 6.1% relative to the one paid out March, while in real terms it dropped by 6.7%. Ratio of the average pension to the value of statistical consumer basket per household member in April was 0.46.

Labor market

According to the data of the Republic Bureau for the Labor Market, the number of unemployed in Serbia in April reached the figure of 805,000 persons, which is up by 4.6% year-on-year. The average number of unemployed per month in the period January - April 2002 was 798,000 persons, recording a 5.5% year-on-year growth. As for initiated employment in the period January - April, it increased by 8.6% relative to the same period the previous year, reaching the figure of 141.000. Employment in socially-owned sector was down 5.55% year-on-year, while in private sector it increased by 5% and in small enterprises by 2%.

Production and services

Industrial production in FRY in April was down by 2.7% relative to the previous month, but the more significant indicator is a 2.7% growth in de-seasonal series. Physical volume of output in both republics in April was down relative to March - in Serbia by 2.6% and in Montenegro by 5.6%. Production (in de-seasonal series) of capital goods increased by 15.2%, consumer goods by 5.2% and intermediate goods by 1.9%. Apart from a continued upward trend in production, April was a successful month also because it was the first time in this year to record a monthly output higher than the one achieved in the same period the previous year. Relative to April 2001, industrial production was up by 4.6%. Retail trade turnover in Serbia in April rose by 4% month-to-month measured both in constant and current prices.

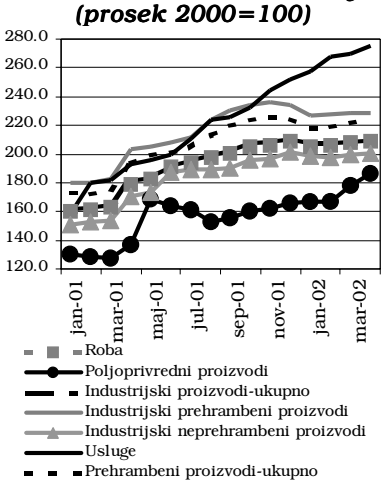
Foreign trade

The preliminary value of commodity exports in Serbia in April was US$ 173 million, displaying a year-on-year increase by 27% measured in nominal US dollars. Owing to this increase, the total export in the period January - April 2002 was up by 7% relative to the same period of the previous year. Commodity imports were valued at US$ 389 million, displaying an increase by 13.5% year-on-year, or 8% relative to the first four months of 2001. Foreign trade deficit in the period January - April rose by 8.5% year-on-year, while the surplus was achieved in two sections: food and live animals, and animal and vegetable oil and fat.

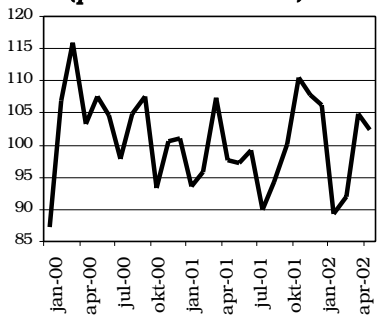
Monetary policy and public finance

The money supply at the end of April was YuD 79.26 billion, which represents a growth by 5.41% month-to-month. The M1 growth resulted from a significant increase in liquidity of banks in YuD owing to the reduced liquidity requirements. As of April 11, 2002, mandatory reserves were set at the level of 20% both for domestic and foreign currency deposits. The average interest rate on short-term securities on the money market registered a mild decrease from 3.39% to 3.18% per month. In the view of the stability of exchange rate and general level of prices, interest rates are still too high, which is a huge burden for economy.

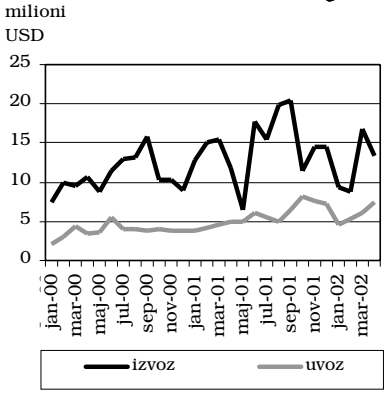
Indekci cena na malo - Srbija (prosek 2000=100)



Indeks industrijske proizvodnje - Srbija (prosek 2000=100)



Izvoz i uvoz odeće - Srbija



G 17 Institut, Beograd
Knez Mihailova 10
381 11 33 46 086, 33 46 172
http://www.g17institut.co.yu

Cene

Tokom aprila cene na malo su u proseku porasle za 0,9%, a troškovi života za 0,6% u poređenju sa prethodnim mesecom. Najveći doprinos aprilskom porastu cena na malo dala su poskupljenja poljoprivrednih proizvoda i porast cena usluga. Industrijski proizvodi tokom aprila poskupeli su u proseku za 0,2%, usled nešto bržeg rasta cena u grupi industrijskih neprehrambenih proizvoda. I tokom aprila nastavila se ustaljena dinamika bržeg rasta cena usluga naspram cenama roba. Svi indikatori praćenja inflacije pokazuju da, nakon prošlogodišnjeg usporavanja, inflacija od početka 2000. godine i dalje kontinuirano usporava rast. Ako bi se kretanje cena nastavilo tom dinamikom ukupna inflacija na kraju godine bi bila znatno niža od predviđenih 20%. U odnosu na prosečne stope rasta iz prethodna dva meseca, troškovi života u aprilu značajno su niži.

Plate i penzije

Prosečna neto plata u aprilu 2002. iznosila je 8.739 dinara i bila je nominalno veća u odnosu na prethodni mesec za 6,5%. Porast indeksa troškova života iznosio je 0,6%, a realni rast prosečne plate 5,9%. Nominalna neto plata u privredi u aprilu dostigla je nivo od 8.364 dinara a u vanprivredi 9.895 dinara, pri čemu je ostvareno isto realno povećanje u privredi i u vanprivredi. Vrednost korpe potrošnje u aprilu iznosila je 10.930 dinara, a odnos korpe i prosečne neto plate 1,3. Prosečna mesečna isplaćena penzija je u aprilu 2002. godine bila na nivou penzije isplaćene u januaru i iznosila je 5.988 dinara. U odnosu na mart bila je niža za 6,1%, dok je u realnom iznosu niža za 6,7%. Odnos prosečne penzije i vrednosti statističke korpe potrošnje po članu domaćinstva u aprilu je iznosio 0,46.

Tržište radne snage

Prema podacima Republičkog zavoda za tržište rada u Srbiji je u aprilu broj nezaposlenih lica dostigao 805 hiljada što je za 4,6% više u odnosu na isti mesec prošle godine. Prosečan mesečni broj nezaposlenih u periodu od januara do aprila ove godine iznosi 798 hiljada što je posmatrano u odnosu na isti period prošle godine porast za 5,5%. Ukupan broj zasnovanih radnih odnosa u periodu od januara do aprila 2002. je 141 hiljada, što je za 8,6% više u odnosu na isti period prošle godine.. Broj zaposlenih u društvenom sektoru u aprilu je za 5,55% manji u odnosu na isti mesec prošle godine, dok se broj zaposlenih u privatnom sektoru povećao za 5% a broj zaposlenih u malim preduzećima za 2%.

Proizvodnja i usluge

Industrijska proizvodnja je na nivou Savezne Republike Jugoslavije u aprilu ove godine bila za 2,7% niža nego u prethodnom mesecu, ali je bitnije da je u desezoniranoj seriji zabeležen rast od 2,7%. Fizički obim aprilske proizvodnje je u obe republike bio manji od martovskog, u Srbiji za 2,6%, a u Crnoj Gori za 5,6%. Proizvodnja (u desezoniranoj seriji) sredstava za rad je povećana za 15,2%, potrošne robe za 5,2% i repromaterijala za 1,9%. April je bio veoma uspešan mesec, jer nije samo nastavljena uzlazna tendencija proizvodnje, već je po prvi put u ovoj godini mesečna proizvodnja veća nego u istom periodu prošle godine. Industrijska proizvodnja u Srbiji je u odnosu na april prošle godine veća za 4,6%. Promet robe u trgovini na malo je u Republici Srbiji u aprilu u odnosu na mart bio viši za 4%, mereno i tekućim i stalnim cenama.

Spoljna trgovina

Preliminarni podaci o spoljnotrgovinskoj razmeni pokazuju da je vrednost robnog izvoza Srbije u toku aprila iznosila 173 miliona USD. Mereno u nominalnim dolarima, reč je o povećanju od 27% u odnosu na april prošle godine, zahvaljujući čemu je dosadašnji izvoz u toku ove godine za 7% viši nego u toku prva četiri meseca 2001. godine. Robni uvoz je vredeo 389 miliona USD, tako da je porastao za 13,5% u odnosu na april, odnosno za 8% u odnosu na prva četiri meseca prošle godine. Spoljnotrgovinski deficit u periodu januar - april je za 8,5% viši nego u toku istog perioda 2001. godine. Suficit je ostvaren u dva sektora: hrana i žive životinje, i životinjska i biljna ulja i masti.

Monetarna politika i javne finansije

Krajem aprila novčana masa je iznosila 79,26 milijardi dinara, za 5,41% više nego krajem prethodnog meseca. Do porasta novčane mase je došlo zbog značajnog povećanja dinarske likvidnosti banaka do kojeg je došlo usled smanjenja stope obavezne rezerve. Počevši od 11. aprila ove godine utvrđena je jedinstvena stopa obavezne rezerve u iznosu od 20% koja će se primenjivati i na dinarske i na devizne depozite. Na tržištu novca je u aprilu blago opala prosečna kamatna stopa na kratkoročne hartije od vrednosti sa 3,39% na 3,18% mesečno. Imajući u vidu stabilnost kursa i opšti nivo cena kamatne stope su i dalje na vrlo visokom nivou, koji predstavlja veliko opterećenje za privredu.

A Project for the European Union

For almost a decade, the European Union has been facing and actively dealing with the question of how to accomplish under conditions of increased membership (with 10 to 15 new member states) the basic tasks that lie ahead, and how to maintain stability in the decision-making process, while preserving the degree of cohesion which has been achieved, but at the same time leaving space for extending the European process of integration. For these reasons, on May 22, 2002 the European Commission adopted its proposal *A Project for the European Union* (COM/2002/247 final), a document that is to serve as a basis for changes in the institutional system of the Union. Through this proposal, the Commission contributes to the work of the Convention that has been set up to deal with the issue of institutional reforms in such a the way as to define the main tasks of the Union and the constitutional framework which should be taken into consideration by the Convention.

Ensuring prosperity with accomplishment of solidarity

The Project for the EU focuses on three basic questions of the European integration process, at the same time suggesting some of the possible, and in Commission's assessment, proper responses to them. The first question is how to consolidate the development model based on solidarity and sustainability, and to build up the organized and functional economies and social structures based on the single currency, the introduction of the Euro, consolidation of internal markets, coordination of economic policies, synchronization of fiscal and social policies, solidarity among states and in the European region, and introduction of the model of European society - all of which are focal points that are agreed to by all states and citizens of the EU. For further deepening of the integration process in these areas, the main task is considered to be development and reconsideration of common policies through a process which would involve work on building up a prosperous economy and the achievement of solidarity. This process, among other things, involves reconsideration of methods and procedures in the decision-making process. Consequently, the Commission proposes that qualified decision-making become the main procedure in the field of single-market, decentralized implementation of common policies, with special attention being paid to differences in local conditions. The next important moment is the coordination of economic policies, with the upcoming increase in membership, in particular, expected to bring about changes in the parameters of this coordination. They will be set according to the number of members and diversities of their economies. The Union will need new resources in order to be able to respond to these challenges.

An Area of freedom, security and justice in Europe

Another segment concerns an attempt to respond to the question of how to build up a stable Area of Freedom, Security and Justice in Europe. After the Amsterdam Treaty was adopted (1997), creation of such an area has become one of the Union's fundamental objectives, and its significance is growing as the EU is coming closer to becoming larger. The significance of this issue lies in the fact that establishment of the area of freedom, security and justice, as a primarily political issue, will be important in shaping the full content to the idea of European citizenship. As a key element in the implementation of this area, the Union must develop common control measures over its external frontiers, over implementation of a common immigration and asylum policy, in undertaking efficient actions against organized crime and terrorism and in strengthening judiciary cooperation in civil and criminal matters. Hence, the main objective of the Union is the creation of the system of a European public order which would have to foster efficiency of national systems, while at the same time protecting the fundamental values of the Union itself.

In order to make these wide and important ideas feasible, the Commission suggests increases in the number of instruments available to the Union, with improvement of the decision-making process along the way (the so-called Community method). In fact, this Project requires a new Treaty to define and list the major goals of the Union, to identify the objectives on which the mutual recognition could be applied, as well as those which require a kind of harmonization of national legislations, and to define the procedures to be prepared in order to guarantee efficiency of the decision-making process in adopting measures which would contribute to the implementation of the Area.

The third question - how to provide external efficiency of the EU policy through its trade, diplomatic and military elements, financial aid and assistance for development - is actually an attempt of the Project to assist the EU in the realization of its responsibility as a world power. At issue is an attempt to define policy towards third

Editor
Tanja Miscevic, M.A.

countries in the neighborhood and to show the difference between this concept and the concept of a foreign policy. Namely, the EU policy towards third countries exceed classical diplomatic and military aspects of foreign policy and extends to areas such as judiciary and home affairs, environmental protection, trade, customs as well as the Euro zone development; more precisely, it aims at integrating all these different areas and to enable their harmonious existence. This is neither about "communitization" of foreign policy, nor about attempts to make policy toward third countries fit the principle of "mutual-statehood" by extending the prerogatives of member states. This Project offers a real answer to the requirements of coherence (the creation of a center which is to control political initiatives and to articulate joint interests) and demands of efficiency (through adjustment of procedures that will correspond to specific characteristics of foreign policy). One of the ways these tasks can be implemented is through gradual fusion of functions of the EU High Representative and the Commissioner for Foreign Affairs. The resultant office would have a legitimate leading role in dealing with crises. Foreign policy would have to have at its disposal necessary instruments for its implementation: a budget, new procedures, a network of external representative offices, while decisions would have to be made through majoritarian decision-making, except for procedures dealing with safety and defense (where the principle of unanimous decision-making would be maintained).

Union's policy toward third countries

The Commission laid down some interesting proposals regarding changes in the fundamental Treaties the Union is founded on today: their complexity, resulting from frequent changes in the fifty-year history, have generated confusion and inconsistency, not allowing the Union to operate efficiently. For simplification and rationalization of the EU institutional infrastructure, the Commission suggests fusion of the EU Treaty and the Treaty on Foundation of European Communities, which would erase the difference (which is politically outdated in the Commission's opinion) between the area of the Community (first pillar) and the areas related to the joint foreign policy and security policies (second pillar), and cooperation in the areas of the judiciary and home affairs in criminal matters (third pillar). The Union would appear as a unique legal entity, but at the same time this does not mean that community methods would be applied in the same way in areas that constitute the second and third pillars, but the role of officials and the decision-making procedure applied in them would have to be clearly defined in the Treaty itself. With this text, the Union would have an act of constitutional nature which would exist simultaneously with national constitutions. It would explain in a unique way the specific organization of public authority in the EU, but at the same time it would be comprehensible to all and would have the same values as constitutions of any member state. However, the Commission is aware that this raises the question of ratification of such a legal act. But much more importantly, it also raises the issue of consequences if ratification is not feasible. The Commission does not offer answers to these questions.

Constitutional Treaty

The Project for the EU in several points mentions and supports a broad application of "the community method", but it does not say what this method is all about. The Commission revised this shortcoming through a special memorandum - Explanations of the Community Method which was adopted by the Commission members on May 22, 2002. The Memorandum defines the community method as a decision-making procedure which provides transparent, efficient and democratic functioning of the European Union; it is based on cooperation between three institutions - the Commission, the European Parliament and the Council (which make up the so-called institutional triangle). The basic elements of this triangle are: monopoly on the initiatives held by the Commission which act in the interest of Europe; the Council which represents member states and makes decisions by a qualified majority; the European Parliament directly elected by EU citizens to co-decide or have a consultative role: the Council can change the Commission's proposal only unanimously; member states implement EU policies; EU organs can participate in implementation, especially when the harmonized approach is required; the Council can transfer implementation prerogatives to the Commission; the Commission monitors implementation with assistance from the committee; EU institutions, member states and interested third parties can bring a case before the Court of Justice EC which decides on legality of decisions thus adopted. In community law the term codecision-making procedure became widely used for decision-making in numerous areas of integration. The Commission supports this method as the only method for all areas of community law. It seems that this support, which backs the super-national character of the European integration process, must face extensive resistance in member states.

What is the community method?

Economic News

The European Commission will reject Hungary's request for reopening talks on the agreed terms of accession with regard to purchase of land.

The new Hungarian Government strongly criticized the existing agreement which provides for free purchase of land after a three-year transitional period, following accession to the EU for citizens residing in Hungary who are not Hungarian nationals, i.e. after seven years for EU citizens residing outside of Hungary.

No changes in what was agreed with Hungary

Eneko Landaburu, Director General of the European Commission for enlargement, however, said that the talks with Hungary are not likely to reopen in order to achieve the terms recently approved to Poland (a 12-year transition period after accession for purchase of land by foreigners). He further stressed that the concessions which were approved to Poland due to its specific situation (fear among Poles of extensive return of former landowners, Germans and Hungarians banished from Czechoslovakia after World War II) cannot be approved to other applicant countries.

Hungarian officials emphasize that Hungary would accept the three-year transitional period if the EU agreed to reduce the predicted 10-year term for reaching the 100% direct payment to farmers in candidate countries.

The chief Hungarian negotiator, Endre Juhasz, believes that in spite of all conflicts and disagreements, the new Hungarian Government will proceed with accession.

The negotiating process on full membership between the EU and ten candidate countries is coming to an end. The heads of states and governments of EU member states are expected to agree officially on the beginning of accession of not less than ten candidate countries as of January 1, 2004 in Copenhagen this year.

At the Brussels conference Gunter Verheugen, the EU Commissioner for Enlargement submitted a report which confirms that the talks proceeded according to plan and were even accelerated under the Spanish presidency. For only two out of thirty chapters, the general agreement had not been made yet with some candidate countries. 27 chapters have been concluded with Cyprus, 26 with Slovenia and Lithuania, and 21 with Malta; Bulgaria and Romania with 17, i.e. 11 concluded chapters lag behind and accession of these states is not likely prior to 2007.

In spite of these optimistic prospects, some serious problems are still unresolved. One of them refers to the remaining negotiating chapters: agriculture, regional development and budgets. The EU is to finalize its negotiation position on these issues by the end of next month, at or prior to the Seville Summit on June 21 - 22.

Candidate countries' hope of abundant financial support will hardly be fulfilled, considering the very restrictive proposals created to prevent pressure on the EU budget and funds. With respect to agriculture, direct payments to farmers in full amounts will not to be achieved immediately, but progressively from 2004 to 2013. A new rule with respect to regional policy is that no country can count on regional aid over the 4% GDP, meaning that per capita allocations will not exceed 50% of current amounts for less developed regions in the EU. The European Commission will try to persuade the Ministerial Council to mitigate these suggestions to some extent, especially with regard to net contributions of candidate countries to the EU budget in the first years following the accession.

Last stage in negotiations of the new candidates for accession to the EU and the problems that lie ahead

Such meanness on the part of the EU is a logical consequence of the decisions made at the 1999 Berlin Summit, when the amount of resources allocated for new member states was limited to the maximum of EUR 67 billion for the period 2000 - 2006, which accounts for a little over 10% of the EU budget or one-tenth of the 1% combined GDP of the fifteen members of the EU. This amount cannot be compared with the EUR 600 billion transferred to Eastern Germany over the course of nine years after unification of Germany.

Addressing the European Parliament, Endre Juhasz, one of the chief Hungarian negotiators explained the justified criticism at the expense of EU. He stressed that the Berlin budgets were created for accession of six new states, while now it is about ten new states that are to be admitted, which should mean increase of the existing budget by about 30%, i.e. additional EUR 24 billion. If the EU agreed on this increase, it would certainly provide successful termination of negotiations.

Some other problems can also slow down or even hold up the process. Among them is the second referendum in Ireland on the Nice Treaty which set the institutional groundwork for enlargement. Its failure could bring about catastrophic consequences. Furthermore, there is a problem of Cyprus and its accession to the EU. The failure of talks which are currently underway under the UN mandate could prompt the Greek veto on accession of other candidates if Cyprus is not admitted to the EU. Finally, there is a referendum which is compulsory in every future member state before the accession. According to the latest Eurobarometer conducted in candidate countries, the population is generally in favor of the EU membership, except on Malta, where only 6% of population supports accession. Also, according to the survey conducted by the European Confederation of Chambers of Commerce, 93%

out of 2,575 companies in the candidate countries are in favor of the membership of their countries in the EU.

In spite of all the mentioned problems, the prospects continuing talks and accession of new members to the EU are good.

Companies from candidate countries "Excited" but not yet ready for the EU

The poll conducted by the European Confederation of Chambers of Commerce and by Slovenian researchers among the enterprises in the candidate countries indicate that 93% out of 2,575 enterprises in CEE support the accession of their country to the EU. However, 90% of them are not sufficiently informed on adjustments that must be undertaken. The enterprises are only partially ready for accession to the EU.

On the other hand, over 30% of enterprises are not informed at all, i.e. they believe that the rules and regulations, *acquis communitaire* that will have to be observed once their countries become the EU members, do not apply to them. Cyprus, Lithuania and Slovenia are the leading countries at the end of negotiations with the EU and harmonization of their regulations with EU legislation.

Preferential trade agreements and agreements on free trade are the key elements of the EU foreign policy and a basis of its policy towards developing countries and countries of the Balkans.

As a result of such policy in the late 2000 the EU launched an initiative "Everything But Arms" (EBA) for the world's least developed countries, which includes elimination of tariff rates and quotas for all products from these countries, except arms that come to the EU market, as well as the Stabilization and Association Process for Balkan countries. Trade aspects of these initiatives include a higher degree of economic integration through easier access to the EU single market, which would alleviate the accomplishment of political, security and other objectives of the EU towards these countries.

The key issue, however, is to what extent these trade agreements can really provide better access for these countries to the EU market. Rules and liabilities that the EU imposes in such agreements could limit their efficiency.

The current General Preferential Scheme (GSP) enjoyed by developing countries proved to provide only 1/3 of the EU imports from these countries out of the total that entered the EU market with reduced duties, i.e. that met the criteria for the given preferential treatment. This especially refers to textiles and garments, which accounts for 70% of imports from developing countries subjected to GSP, but only 30% of the garments and textiles imported to the EU really enjoy the current preferences. It is known that textiles and clothes are of great significance for developing countries as a basis of their industrialization and participation in the world economy; as for the Balkan countries, textiles and garments are some of the major exporting products. Thus, in 1998, 84% of the Albanian exports met the criteria for preferential treatment within the GSP, but as little as 2% of exports was really approved with this status. Hence, it can be said that the existing trade agreements between developing countries and the EU have a modest impact with regard to openness of the EU market to exports from these countries.

Shortcomings of the preferential trade agreements concluded with the EU

If deficiencies within the current preferential schemes that prevent realization of mutual benefits continue to exist in the new agreements as well, direct effects of exports from 49 least developed and Balkans countries will be modest, which will jeopardize implementation of the remaining objectives set by the EU toward these countries.

One of the key reasons behind the problems related to preferential statuses refers to the specific rules imposed by the EU in all trade agreements, especially the rule of product origin. This rule defines both the conditions the products must fulfill to be considered the product of the country that enjoys preferential status, and technical procedures that must be fulfilled. This rule was made to prevent the countries that do not enjoy preferential status from exporting their products through those countries which are subject to this treatment in order to enter the uniform EU market without paying full EU customs.

In the case of the textile sector, the rule of origin means that textile products must be made either of domestic fabrics or of very expensive fabrics from EU countries. Hence, products made of cheap fabrics imported from third countries that are not subject to preferential treatment do not comply with the rule of origin and cannot be exported under this regimen. It is clear that numerous exporting products of countries subjected to preferential status are not capable of fulfilling such strict requirements of this technical rule.

This and other similar rules of preferential trade arrangements to a great extent have a reverse effect from the one they are intended to achieve, i.e. mutual stimulation of economic and trade flows. Such restrictive rules bring about reallocation of trade flows, which should be guided by economic interests, and above all, imposition of additional high costs associated with administrative and technical procedures of examining whether these products fulfill the given rules.

But, there is no reason for worry since, as soon as it realizes that this or any other rule harms the interests of their businessmen, i.e. liberal trade flows, the EU will harmonize the rule of origin of products for trade with least developed and Balkans countries, as was the case with the current candidate countries.